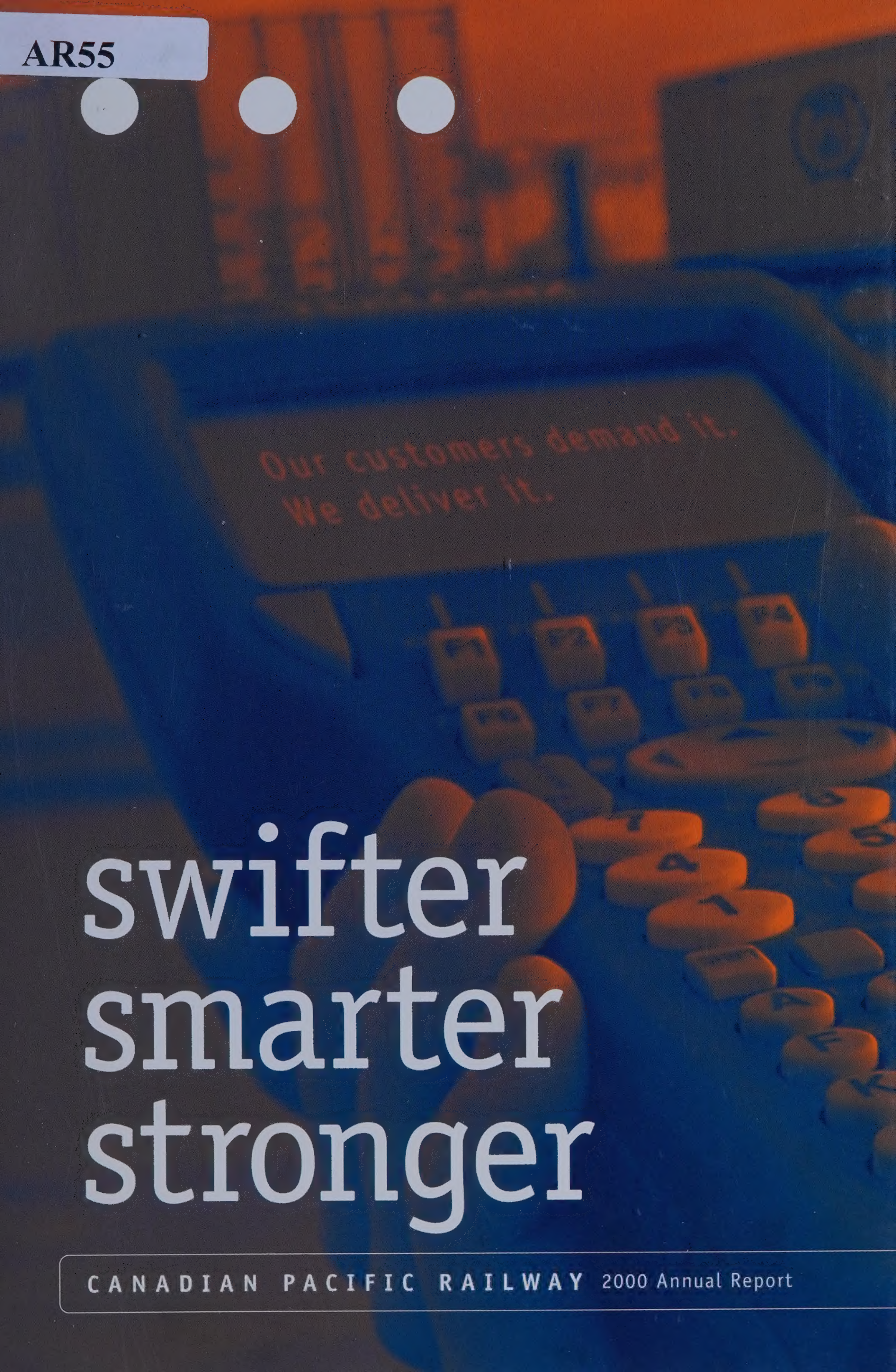


swifter smarter stronger

CANADIAN PACIFIC RAILWAY 2000 Annual Report

cover image: Using wireless computers not much bigger than a hand, CPR manages all inventory in intermodal terminals. The wireless technology is a key component of the OASIS information system, which enhances terminal capacity and service quality.

OUR VISION

We will be the preferred business partner in rail-based transportation services.

OUR MISSION

Through teamwork, we will create value by delivering superior customer-focused transportation solutions.

Canadian Pacific Railway provides rail and intermodal freight transportation services over a 14,000-mile network extending from Montreal to Vancouver, and throughout the U.S. Midwest and Northeast. Commercial alliances with other carriers extend CPR's market reach beyond its own network. Serving eastern ports in Canada and the U.S., and the Port of Vancouver, CPR links North America with European and Pacific Rim markets.

Canadian Pacific Railway entered the millennium with a new sense of purpose and possibility. Renewed infrastructure, leading-edge technology and a dedicated CPR team are driving our success.

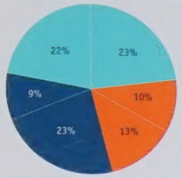
Together, we are building a railway that is

swifter
smarter
stronger

Our customers demand it.
We deliver it.

cover image: Using wireless computers not much bigger than a hand, CPR manages all inventory in intermodal terminals. The wireless technology is a key component of the OASIS information system, which enhances terminal capacity and service quality.

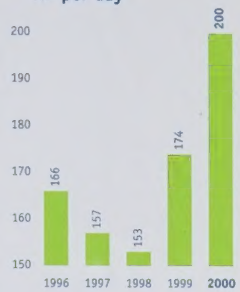
Freight revenue distribution



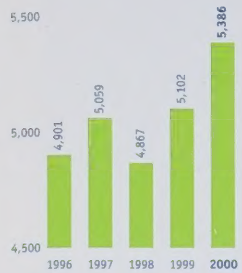
- **Agri-products and Coal**
  23% Coal, sulphur, fertilizer; 22% Grain
- **Intermodal and Automotive**
  9% Automotive; 23% Intermodal
- **Resource Products**
  13% Industrial products; 10% Forest products

GTMs per average employee (thousands)

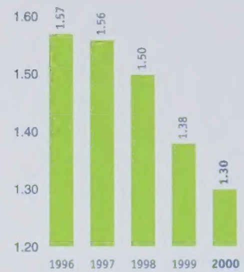
GTMs per available HP per day



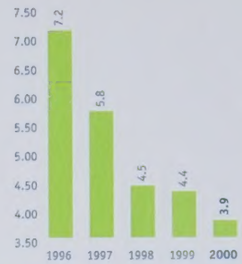
Average train weights (tons)



U.S. gallons of fuel (per 1,000 GTMs)



Personal injuries (per 200,000 employee hours)



key 2000 achievements.

Canadian Pacific Railway put its renewed franchise to the test in 2000 and delivered record productivity, revenues and operating ratio.

financial highlights.

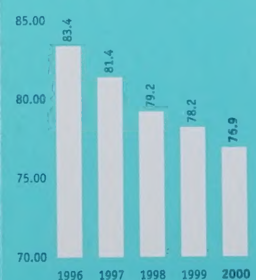
For the three months ended		March 31	June 30	Sept. 30	Dec. 31	Year
Total revenues	**2000**	**912.7**	**904.0**	**910.4**	**928.0**	**3,655.1**
	1999	833.6	828.5	874.0	960.3	3,496.4
Operating income (loss)	**2000**	**186.7**	**204.2**	**221.7**	**232.6**	**845.2**
	1999	140.6	(342.9)	210.1	253.9	261.7
Operating income excluding unusual items	**2000**	**186.7**	**204.2**	**221.7**	**232.6**	**845.2**
	1999	140.6	157.7	210.1	253.9	762.3
Net income (loss)	**2000**	**85.1**	**95.6**	**95.8**	**255.8**	**532.3**
	1999	61.3	(227.3)	112.0	120.9	66.9
Net income excluding unusual items	**2000**	**85.1**	**95.6**	**95.8**	**255.8**	**532.3**
	1999	61.3	74.2	112.0	120.9	368.4

operations and productivity.

	2000	1999	1998	1997	1996
Gross ton-miles (GTM)(millions)	**210,719**	192,206	182,579	186,464	184,047
Freight revenue per revenue ton-mile (RTM)(cents)	**3.13**	3.31	3.45	3.41	3.42
Number of active employees at year-end	**17,519**	18,150	19,323	19,514	20,540
Miles of road operated at year-end*	**13,959**	14,358	14,456	15,097	17,399
GTMs per available horsepower per day	**200**	174	153	157	166
GTMs per mile of road operated (thousands)	**15,096**	13,387	12,630	12,351	10,578
GTMs per average active employee (thousands)	**11,729**	10,031	9,196	9,254	8,470
Average train weights (tons)	**5,386**	5,102	4,867	5,059	4,901
U.S. gallons of fuel per thousand GTMs	**1.30**	1.38	1.50	1.56	1.57
Personal injuries per 200,000 employee hours	**3.9**	4.4	4.5	5.8	7.2
Train accidents per million train miles	**2.0**	2.1	2.2	3.4	5.3

* Excluding haulage miles.

Operating ratio* (percentage)



* Excluding unusual items.

Operating income* (millions of dollars)

* Excluding unusual items.

Operating expense per GTM (cents)

* Excluding unusual items.

ROBERT J. RITCHIE,
PRESIDENT AND CEO

I am pleased to report that Canadian Pacific Railway posted another record year in 2000, setting new benchmarks in several important areas:

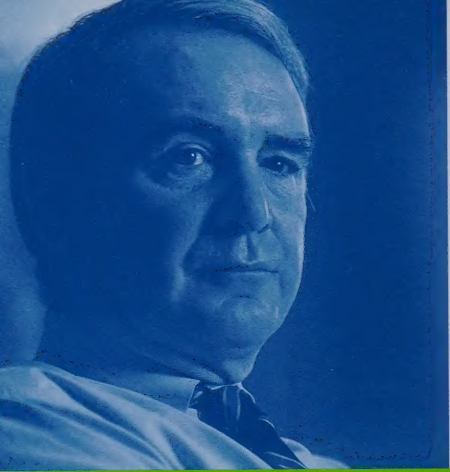
operating income, operating ratio, and business volumes.

PRESIDENT'S MESSAGE

But before I review these results, I want to speak directly on our progress in the area of the business that means the most — getting the job done safely. In 2000, CPR had the best train accident record of all Class 1 railways in North America — for the third consecutive year. That's an outstanding record and speaks to the efforts of everyone at CPR. We are setting the standard for the industry.

The numbers for 2000 show that our revenues increased $159 million, expenses were up $76 million, and operating income, excluding unusual charges, rose $83 million to $845 million, compared with 1999. What is not readily apparent in these numbers is our successful expense-containment effort. Expenses rose 3% on 10% more volume and high fuel prices, meaning that we flowed better than two-thirds of the additional business directly to the bottom line. This is a clear presentation of the commitment we all have to building a swifter, smarter and stronger company.

The story I want to tell is *how* we achieved these results and *what* we are doing to ensure success along our continuous journey.



going

First, and perhaps most important,
we have smarter ways to work with our customers.

We are capturing new business by offering shippers a variety of innovative and more sophisticated services and products. We are able to do this by progressively strengthening our customer relationships so we have a better understanding of each shipper's unique transportation requirement.

We have listened to what paper shippers were telling us, and worked with car builders to design the best car possible for meeting their service needs and our performance standards. In 2001, we'll be introducing the safest, highest capacity boxcar ever built for handling paper products. It will have the lowest centre of gravity of any boxcar, the most advanced ride cushioning technology available, and superior wheel assembly design.

We have expanded our network of reload centres that produce value-added service for our customers in the forest products, steel, chemicals and plastics industries. Our latest addition is the Hamilton Distribution Centre, which handles steel, plastics, lumber and newsprint with a combined value of more than $1 billion a year. Completed in 2000, the Hamilton centre demonstrates how we can capitalize on the economies of rail over long distances and local truck delivery to the customer's door. This has proven to be a cornerstone of our growth activities.

Our expanded suite of services marketed under the CPR-MEX brand offers shippers a strong alternative to trucks in the North American free trade arena. In 2000, its first full year, CPR-MEX generated 95% growth in revenue from Canada-U.S.-Mexico freight.

We have developed Expressway, a scheduled train service that moves truck trailers between urban centres. What differentiates this service is that it works with truckers, instead of against them. Truckers can put their trailers on our Expressway trains in one city and pick them up hours later in another city, avoiding congested highways, reducing fuel costs and solving a driver shortage problem. While other services can handle only reinforced trailers, Expressway's unique continuous-platform technology makes it the only intermodal service in the world that can handle any type of truck trailer. We are seeing improving results as some long-term customers move a portion of their truck traffic to CPR.

Some of our biggest customers have rewarded CPR for reliable service by positioning new distribution centres next to our intermodal terminals. Retail giant Sears opened eastern and western distribution anchors next to our Toronto and Calgary terminals in 2000. Canadian Tire, another retail giant, began building its western distribution centre next to our Calgary Terminal. Consolidated Fastfrate, one of the largest freight forwarders in Canada, opened a cross-dock facility next to our Toronto terminal in 2000. Their investment demonstrates the value of CPR's commitment to just-in-time service for the highly competitive retail and less-than-truckload sectors.

We've further enhanced our customer service initiatives by launching a dynamic customer relationship management program, supported by an improved customer response network. This ensures that CPR answers queries, meets changing requirements and resolves problems effectively and expeditiously. Our employees' awareness of customer expectations is greatly improved, and they're acting on it at every level of the company.

Going forward, we will continue to open up new Internet channels to the marketplace that expand customer self-service and make the railway industry much more seamless to shippers and suppliers while achieving economies of scale.

forward

PRESIDENT'S MESSAGE

Along with other partners, we've launched new e-business storefront approaches. One is a joint investment in Arzoon, a web-based technology that provides a set of tools shippers can use to request and select service packages from carriers, and a portal through which their shipments can be monitored. Another, called RailMarketplace.com℠, is a procurement website with global reach for the $23 billion worth of goods and services the founding partners procure annually. It will help streamline supply chain activities, reducing transaction, order processing and inventory costs, and sourcing goods more readily from around the world.

CPR is also phasing in a web-based pricing system that will allow customers to select service items from a menu on our website and receive a price based on their selections. It will dramatically improve the way pricing, proposals and contracts are generated, and will make invoicing faster and more accurate.

Building on our transportation role, CPR launched a separate company called Tronicus to design and execute high-performance integrated supply chain solutions for businesses of any kind. The prospects are exciting. As global trade expands and companies look to sharpen their competitiveness and minimize their costs, the entire supply chain — from sourcing of raw materials, to production, delivery and end-use — will come under a microscope.

These kinds of expansions to our service are especially significant as they, by and large, represent continuous opportunity and growth for CPR.

Second, these creative offerings and our renewed infrastructure are supported by state-of-the-art technology.

Our success in strategically applying technology to business requirements is what differentiates CPR in terms of customer service, terminal operations, and over-the-road performance. Many companies can run a line of trains, but to be able to deliver freight when it's needed and damage-free, requires strategic data management and leading-edge operating systems.

Consistency in shipment deliveries from dock to dock, and eventually from door to door, based on individual customer expectations, is a key area of focus enabled by leading-edge systems. This is being managed under the banner of Service Excellence. We are blending human skills and the best technology to improve productivity and increase revenues, while offering service levels that will take more market share from trucks. You will find more details elsewhere in this book on how information technology is coming into play at every point in the life of a shipment on our railway.

The depth and speed at which our industry is adopting e-business applications compelled us to rethink how we could best manage this constantly evolving area of the business. The answer was to create a single e-business organization to manage all investments in systems infrastructure, and set technical direction to support emerging applications and expanded desktop capabilities.

This organization will rapidly grow CPR's capability for on-line business with customers, as well as suppliers, employees and others. Through careful investment in systems infrastructure and desktop technology, it will ensure our employees are positioned to leverage the power of the Internet.

Third,

we are more efficient.

While our new technology has been a tremendous enabler of inspirational customer solutions and improved productivity, it is further enhanced by our continuously improving operating plan. Called Genesis, the plan promotes better locomotive, freight car and track utilization, longer, heavier trains, and more efficient terminals.

Integral to Genesis has been the development of the most modern locomotive fleet in North America using alternating current (AC) technology. AC locomotives account for just over 20% of our fleet, but handle more than 55% of the workload. The high reliability of these locomotives translated into a 15% jump in utilization across the entire locomotive fleet in 2000. We have another 51 AC locomotives on order for 2001.

Utilization of other assets, as well as productivity, are also higher. Average train lengths and train weights both climbed approximately 6% in 2000. Car miles per car day increased almost 10%, car content weight was up 1.2 tons, and we shaved a full day off car cycle time. We also used fewer cars to move more freight, with average cars on line down 1,790, or more than 2%, while freight ton-miles were up approximately 10%.

We expanded the use of firms specializing in locomotive technology to supervise maintenance and repair of our locomotives. By year-end, more than three-quarters of our fleet was being maintained in our shops under the supervision of General Electric Transportation Systems, the Diesel Division of General Motors of Canada, and other smaller contractors. The contracts with these firms contain stringent locomotive performance commitments that have a direct link to the improvements we've seen in cost control and customer service.

Leaving the management of maintenance in our shops to the people who design and build locomotives allows CPR to concentrate more on what we must do well — move freight.

As we continue to make notable progress in productivity and asset utilization, we are also looking outside of our company for opportunities through alliances.

Along these lines, we have further strengthened CPR's position as a North American railway. The evolution of this business has required that we connect with competitors to move goods all over the continent. More than 40% of CPR's business links up with other railways. We're beginning to prosper from a number of intelligent interline arrangements. We have shared-access agreements with railroads in the U.S. Northeast, new co-production opportunities whereby railways share their infrastructure to reduce costs, and joint marketing and operating arrangements that allow us to compete across the continent and directly into all the major markets of Mexico.

We've been able to recapture traffic since the Asian flu subsided, and CPR's success here greatly reflects our dedication to service and our strategic positioning in key market locations throughout North America.

For the long term at CPR, our goals remain the same.

We will maintain our strong advantage in moving bulk commodities, and focus on the growth opportunities — the transportation of consumer goods. We will do this by capitalizing on revenue growth via superior customer service and innovative commercial initiatives, capturing efficiencies and opportunities through our new technology and e-business strategy and staying committed to the Genesis operating plan.

Canada's current review of its transportation law, the *Canada Transportation Act* (CTA), could open the door to improving the public policy environment for the rail industry. In an interim report at year-end, the Review Panel confirmed that to compete internationally, Canada needs a viable, sustainable rail industry. We hope this view serves as a framework for any future changes in the law.

CPR has become stronger and more competitive in the last five years in the absence of this framework. Just think what we could accomplish under more auspicious circumstances.

For now, I am satisfied with the progress we are making. As we continue to improve our operations and processes, we expect to recapture more of the carload business from the trucking industry.

Our pool of talented employees deserves a great deal of credit. We work hard. We take pride in overcoming adversity, particularly on a continent whose extreme terrain and temperatures make it a tough place to run a railway. We are a hardy bunch, and rally to any kind of challenge.

Take a look, for example, at our safety record. We are the leaders in safe train operations, and continuously improve on-the-job safety. But we're not about to rest on our laurels. CPR will continue to manage day-to-day safety by focusing on compliance, risk assessment, employee wellness and awareness training, and setting improvement targets.

We've also made important strides in engaging our unionized employees in the business. CPR's Gainshare program paid about $7.5 million to unionized employees in 2000, 12% more than in 1999. Linked directly to gains in service, productivity, safety, and operating cost reduction, the higher payout this year signifies the program's growing importance.

In the important areas of community and the environment, we have increased the dialogue and level of participation. CPR operates through hundreds of communities, and we want to be known as a good neighbour.

We work hard to minimize the railway's impact on the environment, whether it's routine day-to-day operations, or an emergency. The work we did to restore natural water flows in the Vermilion Wetlands in Banff National Park shows what can be accomplished by consultation.

CPR is going into 2001 with a new sense of partnership with communities. We believe that success depends not only on our ability to know our business, but to appreciate the issues that are important to the communities in which we operate — issues such as safety, quality of life, and the environment.

With enhanced community relations programs, we will ensure our reputation as a corporate citizen in North America is every bit as strong as our reputation as a preferred business partner with companies around the world.

Through these programs and efforts to enhance quality customer relations, CPR employees have shown tremendous dedication. Their commitment is one of the keys to our successful growth and the best guarantee of our continued prosperity. Together, we share a view of optimism for CPR in the years to come.

new e-business
storefront
approaches.

customer
self-service
via the web.

shipper portals
for monitoring
multi-carrier
performance.

railroading
21st century
style.

new e-business
storefront
approaches.

customer
self-service
via the web.

shipper portals
for monitoring
multi-carrier
performance.

agri-products and coal.

COMMODITIES

CPR's Agri-products and Coal business group consists of grain, coal, fertilizers and sulphur.

Grain traffic includes wheat, grain products, and other agricultural products moving from the Canadian Prairies, North Dakota and Minnesota to North American and international markets.

Canadian coal traffic comes mainly from mines in southeastern British Columbia for export to steel mills. U.S. coal traffic comes from two sources — the Powder River Basin and the Indiana Basin — and is used in domestic power generating facilities.

Fertilizer traffic consists of potash, nitrogen and phosphates from Alberta and Saskatchewan for overseas and domestic markets.

Sulphur originates from processing plants in Alberta and is shipped overseas and to North American markets.

CPR'S COMPETITIVE ADVANTAGE

- The shortest route from Canada's main production areas to the Port of Vancouver.
- Access to a consolidated network of high-throughput grain elevators.
- Direct service to the most productive coal mines in Canada.
- The leading carrier of formed sulphur for export, and the largest transporter of liquid sulphur from Alberta to the southeastern United States.

2000 OPERATING RESULTS
Revenues (millions): $1,568.8
RTMs (millions): 62,193

resource products.

COMMODITIES

CPR's Resource Products business group consists of forest products (lumber, newsprint, panel, fibreboard, wood pulp, and paper) and industrial products (chemicals, plastics, aggregates, minerals other than coal, metals, steel, and energy-related products including propane, butane, gasoline, and diesel fuel).

Forest products originate mainly in southern British Columbia, northern Alberta, northern Ontario and Quebec, and are moved to destinations throughout North America.

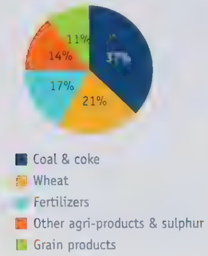
Industrial products originate in Alberta, Ontario and Quebec for North American and overseas markets.

2000 OPERATING RESULTS
Revenues (millions): $804.0
RTMs (millions): 24,851

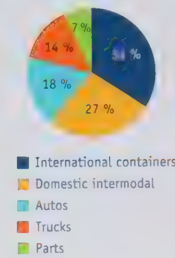
CPR'S COMPETITIVE ADVANTAGE

- Reload centres provide extended reach into key lumber producing areas.
- Recognized as an industry leader in damage prevention for rolled paper products.
- The shortest route, in conjunction with Union Pacific, connecting the U.S. Gulf Coast and the Alberta chemical markets.
- Cross-border gateways in Western Canada provide the most direct rail access to western U.S. markets and the Chicago hub.
- Direct service to a new world-scale polyethylene plant in central Alberta.
- A network of transfer and storage facilities for plastics and steel.

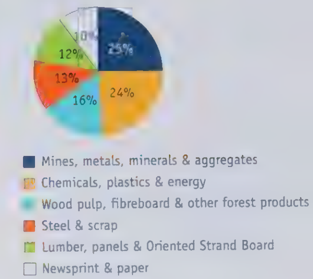
Agri-products & Coal group
% of year 2000 carloads



Intermodal & Automotive group
% of year 2000 carloads



Resource Products group
% of year 2000 carloads



intermodal and automotive.

COMMODITIES

CPR's Intermodal and Automotive business group consists of manufactured consumer products, and finished vehicles and auto parts.

Consumer products move in domestic containers and trailers within North America, and in international containers to and from overseas markets.

The domestic intermodal business consists primarily of long-haul, east-west traffic. International intermodal traffic moves primarily between the ports of Vancouver, Montreal, New York, and Philadelphia and inland points across Canada and in the United States.

CPR moves import vehicles from Vancouver to Chicago and Eastern Canada. Domestically produced vehicles move from Eastern Canada to destinations throughout Canada and the U.S. Through partnerships with other rail carriers, CPR handles vehicles from originating points that are not on its network, including assembly plants in Mexico.

Auto parts are shipped by CPR to assembly plants in Eastern Canada and St. Paul, Minnesota.

2000 OPERATING RESULTS
Revenues (millions): $1,087.3
RTMs (millions): 23,365

CPR'S COMPETITIVE ADVANTAGE

- A network of 23 intermodal terminals, with recent capacity expansions in strategic locations — Vancouver, Calgary, Chicago, Toronto, and Montreal.
- The only carrier that can move non-reinforced trailers by rail.
- The leading provider of rail service to overseas container shipping lines calling at Vancouver and Montreal.
- Daily service from Montreal to all major CPR inland points in Canada and the U.S.
- The only railway offering direct service from the Port of Vancouver to Chicago over its own track.
- Value-added shipment management through Integrated Supply Services.
- A northeastern U.S. rail network giving automakers a competitive option for reaching large U.S. markets.
- Direct access to 11 major auto assembly plants in Ontario and Quebec, and to facilities in the U.S. Midwest.
- Exclusive rail carrier serving Honda and Toyota plants near Toronto, the General Motors plant near Montreal, Ford's plant in St. Paul, and DaimlerChrysler's plants at Windsor and Bramalea, Ontario.

Western Canada

The western corridor from Vancouver to Moose Jaw forms a key part of the route into the U.S. heartland and has the highest traffic density on CPR's network. This corridor provides the shortest rail route from Western Canada's key production areas to the Port of Vancouver for bulk products. Thanks to recent upgrades on this corridor, CPR also offers a highly competitive service into Chicago for transPacific container traffic. Three border crossings in British Columbia and Alberta provide direct access to the western U.S., including the Can-Am route between Calgary and Portland.

Central & Eastern Canada

CPR's central/eastern corridor extends from Moose Jaw through Winnipeg to Toronto. Connecting with the western corridor, it provides the most direct service between Toronto and Vancouver for a wide variety of bulk and intermodal traffic. This corridor also connects with Burlington Northern Santa Fe at Emerson, Manitoba, and Wisconsin Central at Sault Ste. Marie, Ontario.

U.S. Midwest

CPR's southern corridor offers the shortest route between Western Canada and the Chicago interchange, via Minneapolis and Milwaukee. CPR connects with all major carriers at Chicago, and with Burlington Northern Santa Fe and Union Pacific railroads at St. Paul. This route provides a direct service for Canadian fertilizers, chemicals, grain and U.S. agricultural products.

Montreal-Chicago

CPR's Montreal-Chicago corridor provides the most direct route from Europe to the midwestern U.S. In 2000, CPR handled approximately 80% of all container traffic through the Port of Montreal. CPR's Expressway service between Montreal and Detroit provides an efficient and cost-effective alternative to trucks travelling on congested highways in this densely populated area

Interline alliances extend reach

CPR's new integrated business management function is building business opportunities around the continent. Almost 45% of CPR's commodity revenues are derived from traffic that at some point interchanges with Class 1 or short-line partners, making interline agreements key to continued growth. Shared access with major Class 1 railroads expands CPR's reach into major northeastern U.S. markets such as New York City, while joint service arrangements with western U.S. carriers expand CPR's opportunities west of Chicago. Asset sharing agreements in Canada have led to innovative track sharing arrangements in the Fraser Canyon and southern Ontario.

CPR's North American advantage

- a 14,000-mile transcontinental network
- eight Canada/U.S. border crossings — more than any other railway
- access to seven U.S./Mexico border crossings
- 23 intermodal terminals
- services to 13 forest product reload centres that allow shippers to consolidate shipments and manage inventories more effectively
- the only transcontinental railway with direct service into New York City
- the only railway offering a trailer-on-train service that can handle non-reinforced truck trailers

Across the NAFTA partners

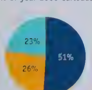
Through alliances with Union Pacific and four Mexican railways, CPR offers a suite of seamless joint-line rail services across North America's three free trade countries. These services, marketed under the brand name CPR-MEX, generated a 95% revenue increase in 2000 from traffic moving between Canada, the U.S. and Mexico. CPR-MEX handles virtually any type of product — from finished vehicles and auto parts, to grain, coal, steel, appliances, wood pulp, and beer.

FOREST PRODUCTS
GRAIN
COAL
AUTOMOBILES
STEEL
INTERMODAL FACILITIES
CPR ROUTE
TRAFFIC FLOWS (2-WAY MOVEMENT)

www.cpr.ca

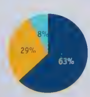
CANADIAN PACIFIC RAILWAY

Grain
% of year 2000 carloads



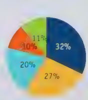
- Wheat
- Grain products
- Other agricultural products

Coal, sulphur & fertilizers
% of year 2000 carloads



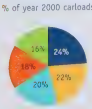
- Coal & coke
- Fertilizers
- Sulphur

Forest products
% of year 2000 carloads



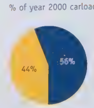
- Wood pulp & fibreboard
- Newsprint & paper
- Lumber
- Panel & Oriented Strand Board (OSB)
- Other

Industrial products
% of year 2000 carloads



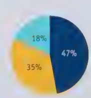
- Chemicals & plastics
- Aggregates & minerals
- Steel & scrap
- Mines & metals
- Energy

Intermodal
% of year 2000 carloads



- International containers
- Domestic intermodal

Automotive
% of year 2000 carloads



- Autos
- Trucks
- Parts

"Now, with CPR we have a transportation service in place that's highly efficient, timely and cost-effective. Bottom line — we've obtained our objectives."

ED BUMBACCO,
MANAGER OF CORPORATE LOGISTICS,
PURCHASING AND STORES,
ALGOMA STEEL

"It was a significant undertaking when we switched major carriers — not just for us within the company but for our customers, as well," says Algoma Steel's Ed Bumbacco.

The switch to CPR, says Mr. Bumbacco, has unquestionably been the right thing to do. "We took a risk, so it's gratifying to come through it all and recognize that we made the right decision."

Mr. Bumbacco says it quickly became apparent that not only was CPR committed to working with Algoma Steel as a partner; it had an understanding of the business that fuelled sound and effective solutions to Algoma's transportation challenges.

CPR offered a delivery service that was much faster than the competition. Speed was attractive but the railway also impressed Algoma Steel with a smarter service. CPR's inventory tracking system ensures Algoma Steel has a firm grip on exactly what products they have and where they are at any given time. State-of-the-art insulated steel coil cars fully preserve the integrity of Algoma Steel's products.

CPR's new steel distribution facility in Hamilton, Ontario, has unmistakably eased some of Algoma's more complex transportation and supply issues.

The 150,000-sq.-ft. facility has four 44-ton cranes and a climate-controlled atmosphere to protect stored steel. For Algoma Steel's customers, the facility means that the quality of the product will be maintained through the transfer process and delivery to their plant.

"A world-class facility that could handle distribution and storage was absolutely critical to us," says Mr. Bumbacco.


swifter
12S

"We chose to work exclusively with CPR and haven't at any time been sorry. If anything, I would consider extending the contract."

MIKE THOMAS,
VICE-PRESIDENT OF LOGISTICS,
HUDSON'S BAY COMPANY

"Railways today have realized that service and timeliness are important," says the Bay's Mike Thomas. "I would have to say in this regard that CPR has led the way. Fast, on-time delivery is the ultimate, and they're very good at it."

Canada's largest department store retailer, the Bay wanted faster, more reliable service for moving its retail merchandise into the Montreal market. CPR suggested its unique Expressway service.

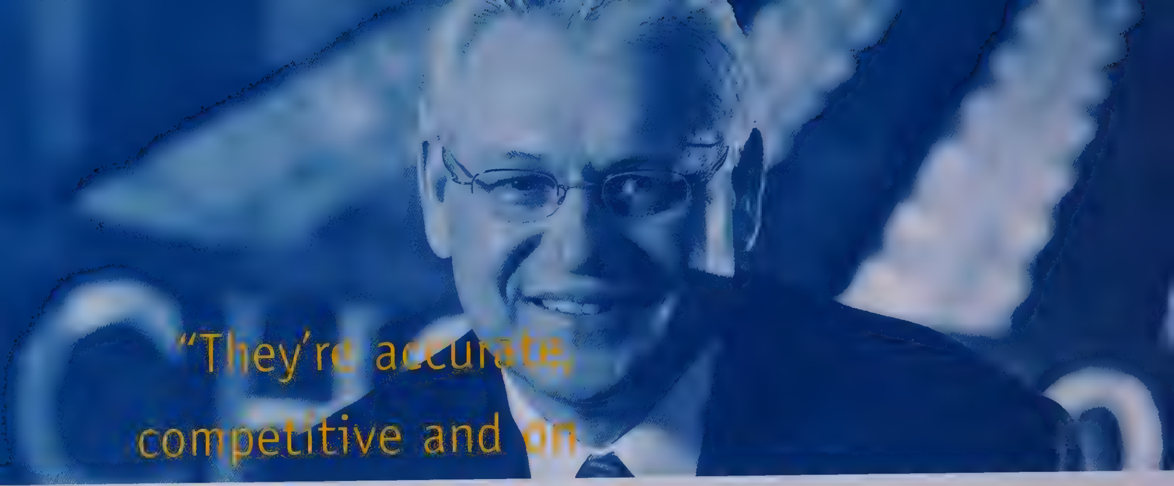
A fast roll-on/roll-off trailer-on-train service, Expressway operates on fixed schedules between major cities. Terminal start-up cost is small compared with conventional intermodal facilities. The trains are a continuous platform linked by slackless drawbars for an exceptionally smooth ride that protects product integrity. Quick trailer drop-off and pick-up in terminals, and web-based train slot reservations are hallmarks of Expressway. It's also a way to take trucks off congested roads between urban centres.

In Toronto, CPR's main Expressway terminal is across the city from the Bay's distribution centre. The 40-mile drive west to the terminal, only to see their trailers return east on the way to Montreal, was a source of frustration for the Bay. CPR's solution: install a small satellite terminal near the Bay's distribution centre.

"We really appreciate the fact that CPR stuck their neck out for us," says Mr. Thomas. "When we ask them something, we get decisions made."

Mr. Thomas says it's because of CPR's willingness to take a risk for customers that the Bay has signed an exclusive, full-service contract. The Bay is now looking forward to moving 15,000 trailers a year between Toronto and Montreal on Expressway. The service will not only reduce the number of trucks on the Montreal-Toronto highway, the busiest corridor in Canada, it will also have a positive impact on the bottom line for the Bay and its Zellers retail subsidiary.


smarter



"They're accurate, competitive and on time, and they allow us to effectively and efficiently take our customers' grain to market."

JOHN JOHNSON,
PRESIDENT AND CEO,
CENEX HARVEST STATES

For farmer-owned Cenex Harvest States Cooperatives, CPR is not just a supplier of transportation services; it is a vital business partner that enables the co-op to uphold its mission to link owners' grain to the global marketplace. And because of many years of unwavering commitment, says Cenex Harvest States' John Johnson, the partnership is strong and highly effective.

"CPR has always remained focused on where grain is grown and that really makes a big difference to us," says Mr. Johnson. "They have made a long-term commitment to haul grain and that gives us confidence, as we build infrastructure, that CPR will be there to service us."

As an organization that ships roughly 30,000 carloads of grain over CPR tracks and has over 30 agri-service centres served by CPR, Cenex Harvest States is clear about what it needs — and gets — from its rail carrier.

Beyond efficient, timely and competitive transportation, Cenex Harvest States counts on CPR's thorough knowledge and understanding of the business so that capital investments required to tie producers into CPR's line are made with the best information from both growers and the carrier. Mr. Johnson says CPR was integral to the process of designing and locating three new flour mills that Cenex Harvest States built in 1995.

Ultimately, he says, both CPR and Cenex Harvest States understand the interdependency of their relationship and each works to ensure they both thrive.

"What CPR says is what CPR does," says Mr. Johnson.


9653
stronger

Service Excellence is CPR's initiative to renew virtually all core operating computer applications. It is taking the railway into a new era. But it's not a destination; it is a journey of continuous improvement.

information

The drive behind Service Excellence is to better manage operations. Integral to this is the ability to create a life cycle for customer shipments — one that starts and ends with the customer. Service Excellence is a suite of five core operating systems, all interconnected and supported by a solid foundation of data and information. CPR has developed these systems and designed the databases with the present and future needs of customers firmly in mind.

technology.

Installation of Service Excellence operational systems and corporate databases began in 1997 and will be 80% complete by the end of 2001. The total cost is more than $200 million with a payback period of less than three years.

OASIS

This wireless computer application manages all inventory in intermodal terminals. OASIS facilitates loading of outbound trailers and containers to railcars and inbound trailers and containers to trucks. It enhances both terminal capacities and dock-to-dock service quality.

order entry

This application has automated CPR's customer billing process and improved the revenue collection system. Instead of taking information from faxes and reworking it, Order Entry creates a waybill for the load when the customer initiates the order. This makes billings more accurate and timely.

VISTA

VISTA is the key to managing shipments. It produces trip plans for shipments, tracks them along the way and provides customers and shipping partners with estimated time of arrival. With VISTA, everyone at CPR — from customer service representatives to train operations planners and freight yard management teams — will understand how a shipment is to be handled, thus minimizing customer concerns about on-time deliveries.

TYES

TYES is a rail yard management system. It communicates the output from Order Entry and VISTA. TYES receives the trip plans for specific shipments and identifies the processes necessary to carry them out. It improves the functionality of the rail yards and monitors all connections necessary to complete the trip plans on time.

DELTA

DELTA optimally matches the supply of empty railcars with shippers' demands. Customer orders are taken 14 days in advance to enable a higher order fulfillment rate and reduce the number of empty car miles.

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databases and data warehouse

This system organizes corporate information into 10 related subject area databases, according to the business needs of its users. It completely replaces more than 70 disparate databases, and stores all information in one common source which is the foundation for the smooth functioning of all Service Excellence applications. The information is written to the Data Warehouse to form the basis of corporate reporting, analysis, and other e-business applications.

NM tools

Network Management (NM) tools are applications that maintain corridor fluidity and reduce yard processing times. They are used in planning the time blocks required to carry out CPR's annual track upgrade program. They also determine advanced maintenance scheduling and deliver diagnostic performance reports.

SAP

A detailed, consistent, enterprise-wide financial management system, SAP provides easy access to one common source of information on productivity and performance. This application shows profitability by business segment and enables superior planning capabilities.

multirail

This tool enabled the Genesis operating plan — a way of operating longer, heavier trains without adversely affecting service levels. Essentially, Multirail designs trains based on 15,000 customer commitments. It is the ultimate traffic optimization device that integrates locomotive, mainline corridor and yard capacities for better performance.

Now that the data management and operational infrastructures are almost complete, CPR is focused on embedding e-business thinking into every CPR strategy. The company has turned its attention to using the Internet, intranet, wireless networks and other digital technologies to attract and sustain business with customers, suppliers, employees and business partners. With its e-business strategy, CPR has captured a more competitive position in the North American economy.

e-business

CPR has adopted the Internet as the computing framework for its e-business strategy. It is globally accessible from desktops, has an easy-to-use e-mail system and has the horsepower and scalability for the inevitable expansions.

for customers

The strategy is focused on self-service for customers, who will receive a customized portal from which they will waybill shipments, order equipment, divert and track shipments, release equipment and receive estimated time of arrival (ETA). The goal is for customers to view the real-time life cycle of their shipment from manufacturer to consumer.

for suppliers

Suppliers will benefit from an e-marketplace for railway procurement and sourcing. Buyers and sellers will be linked through an open electronic exchange of goods and services across the North American railway industry. Still under development, RailMarketplace.com℠ will speed interactions, reduce overall spending and broaden supply sourcing.

Using the same Internet-based tool, CPR will also have the advantage of e-procurement to simplify the process of requisitioning goods and services. Employees will shop for items through CPR-approved catalogues from preferred suppliers. E-procurement will improve purchasing efficiencies, control maverick spending and provide better information for optimal decision making.

2.5 trillion bytes of data move across CPR's information systems every day — equivalent to about 2,500 copies of the 40-volume Encyclopædia Britannica.

for business partners

When it comes to our railway partners, e-business is all about sharing information. Together, Class 1 carriers have designed an industry utility called Steelroads.com. It is the largest railroad database in the world that allows carriers to integrate their rail systems so everyone, including customers, has a dock-to-dock view of shipments. Steelroads.com provides the visibility of transportation events across the entire supply chain, so that if there is a delay, the entire system can adjust to the ETA.

To further improve customer service and compete more effectively in the freight-hauling marketplace, CPR and three other railways have invested jointly in Arzoon, an Internet-based transportation management technology. The Arzoon system covers all transportation modes, and seamlessly spans the North American continent from coast to coast and Canada to Mexico. It will enable customers to procure, monitor and manage transportation services across multiple carriers and modes with one click of the mouse. Arzoon will provide real-time status reports of all shipments and analyze the operational performance of all carriers involved in shipments.

The final destination for CPR's e-business strategy is to have a vast selection of transportation options available to customers through vertical and horizontal portals. By linking to vertical e-marketplaces, shippers can access industry-specific portals. There, they can procure tailored transportation solutions made seamless by access to rail industry databases. All systems are designed and integrated to optimize supply chain management and railway logistics.

for employees

E-business provides a secure, private self-service portal where employees can manage their benefit options, personal schedules, learning and certification opportunities and ultimately, their careers.

With e-business firmly established as a vital business tool, CPR plans to further optimize electronic processes through wireless and fibre technology via the most comprehensive fibre network in the world. Installed along the railway's right-of-way, it will eventually serve as CPR's communications pipeline, distributing a continuous flow of operational information to employees, customers and suppliers.

CPR processed 1,625,000 bills of lading electronically in 2000 via the Internet or Electronic Interchange applications.

Groundbreaking partnerships and a new spirit of collaboration marked CPR's community relations efforts in 2000.

stronger com

munity ties.

Entering the new millennium, CPR pledged to be more accountable to its neighbours and to forge long-term relationships with the communities it serves. Through a new focus on communication and consultation, CPR aims to balance community interests with the demands of running a competitive, modern railway.

It starts by establishing open and constructive dialogue with the railway's neighbours, which is why CPR has set up Community Advisory Panels (CAPs) in some towns on its network. These groups of local residents and CPR managers meet regularly to address any questions or concerns about the railway's impact on their communities. CAPs are currently active in Pitt Meadows, a Vancouver suburb, and in the Fraser Valley, Sudbury, Ontario, and Lacombe, Alberta.

Community consultation proved to be the right approach for several construction projects across the CPR network in 2000. By working closely with neighbours in those areas, CPR opened new rail facilities that met both community and company needs. These projects included a new refuelling facility and underpass in Moose Jaw, Saskatchewan, an intermodal terminal in Detroit, Michigan, and a new rail line in Prentiss, Alberta.

As part of its pledge to be open and accessible to the public, CPR launched a toll-free community phone line in November 2000 to field questions about any part of the company's operations. For the first time, callers have a single point of contact within CPR where a community relations expert handles questions ranging from crossing safety to noise and property concerns. CPR tracks all issues through to resolution and can use call data to identify potential problems early.

The railway's unique ability to tie communities together was poignantly illustrated in December when the CPR Holiday Train once again rallied Canadians around the cause of fighting hunger. The 1,200-ft. train, decorated with 6,000 Christmas lights, was greeted by thousands of well-wishers along its 17-day goodwill journey from Montreal to Vancouver. Together with singer Tom Jackson and the Canadian Association of Food Banks, the CPR Holiday Train raised 11 tons of food and about $350,000 in cash donations. Most important, it drew attention to the issues of hunger and poverty, and to 800,000 Canadians who rely on food banks every month.

Communities across the CPR network marked the millennium with special heritage projects funded by the Canadian Pacific Charitable Foundation. The Foundation's $2-million two-year Heritage Fund supports projects that preserve and celebrate Canadian Heritage initiatives such as historical building restoration, museum exhibits and theatre programs. Through these projects, community groups are bringing the stories of their past to life for future generations.

CPR will build on these new community ties in 2001. New partnerships with the Federation of Canadian Municipalities and the Canadian Community Newspapers Association will help CPR reacquaint itself with community members. Plans are also under way to explore noise reduction measures and better approaches to local dispute resolution.

communityconnectline
1. 800. 766. 7912

An innovative and collaborative approach to environmental projects helped CPR deliver on its commitments in 2000.

neighbours and governments applaud

new environ

mental efforts.

CPR took steps to improve its response times to environmental incidents by expanding its network of environmental contractors in 2000. These contractors, who deal with the accidental release of hazardous materials, will provide a three-hour response time to a hazardous incident anywhere on CPR's 14,000-mile system by the end of 2001. Now, instead of working in isolation, contractors share know-how, personnel and equipment when responding to incidents.

CPR organizes drills and training sessions with government agencies, local officials and contractors to coordinate efforts and share expertise. The contractor network has been so successful that other railways, businesses and governments have turned to CPR for help in handling the release of hazardous materials.

CPR's consultative process was put to the test in 2000 when it held its second two-day workshop in Banff, Alberta, for local government, research, environmental and academic interest groups. The sessions explored ways to stop the degradation of the rail line through the Vermilion Wetlands caused by frost heaves and water seepage in the Bow River flood plain. At the same time, CPR helped Parks Canada meet its goal of restoring more natural water flows in the area by installing more than twice the number of culverts required strictly to ensure track stability.

The working group developed the terms of reference for the remediation plan and reviewed the subsequent modelling work and environmental screening document. In the fall, CPR installed nine culverts at seven locations beneath the railway track, allowing water to flow more freely and alleviating track instability concerns. This environmentally sound solution in a sensitive area of Banff National Park won unqualified support from all stakeholders.

CPR's safety, operations and environmental teams were busy delivering on the company's Responsible Care commitments in 2000.

As a partner in this worldwide chemical industry initiative, CPR plays a leading role in promoting and ensuring chemicals are handled safely at its facilities and through communities across its network. CPR's corporate values, policies and management systems demonstrate a commitment to continually improve its environmental, health and safety performance.

Educating and informing communities about these initiatives is a key part of Responsible Care membership.

CPR conducted 40 emergency preparedness workshops and four full-scale mock disasters as part of its Responsible Care initiative in 2000. Classroom sessions and hands-on exercises helped equip firefighters and other first responders with the information and skills they need to respond to a dangerous goods incident on the railway.

CPR also teamed up with other transport companies to develop a set of verification protocols specifically designed for the transportation industry. Conducted by an independent team of chemical industry experts and a community representative, the verification will include evaluating CPR for its adherence to the Responsible Care ethic. The results will be reported publicly through the Canadian Chemical Producers Association.

management's discussion and analysis.

2000 PERFORMANCE COMPARED WITH 1999

Summarized Consolidated Statement of Earnings

(in $ millions)

	2000	1999	Favourable/ (unfavourable)
Revenues	**3,655.1**	3,496.4	158.7
Operating expenses	**2,809.9**	2,734.1	(75.8)
Operating income, excluding unusual items	**845.2**	762.3	82.9
Unusual items (expense)	**–**	(500.6)	500.6
Operating income, including unusual items	**845.2**	261.7	583.5
Interest expense, net	**167.0**	136.6	(30.4)
Other charges, net	**23.1**	26.2	3.1
Income before income taxes	**655.1**	98.9	556.2
Income tax expense	**122.8**	32.0	(90.8)
Net income	**532.3**	66.9	465.4

In 2000, the Company's operating income increased $83 million, or 11% to a record $845 million compared with the previous year, excluding the unusual charge in 1999. The operating ratio was 76.9%, an improvement of 1.3 percentage points from the previous year. These results were achieved by growing the business and successfully managing expenses. Expense reductions largely resulted from further advances in the Company's operating plan, improving fuel efficiency and maximizing asset utilization.

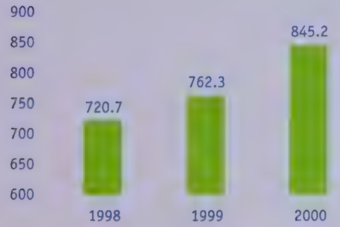
Revenues increased by $159 million compared with 1999, with gains realized across all commodity groups. Bulk commodities saw revenue growth with increased grain production exports. The most service-sensitive markets also showed strong revenue growth, with intermodal revenues increasing $30 million and automotive revenues increasing $27 million. Other commodity groups also reported revenue gains.

Excluding unusual items from 1999, operating expenses increased by $76 million, mainly as a result of increased fuel prices. Excluding the impact of fuel prices, expenses were down approximately $34 million despite a 10% increase in workload. Expenses associated with volume growth were more than offset by productivity improvements, largely as a result of the new operating plan introduced in the third quarter of 1999. The Company is continuously making improvements to the operating plan with benefits flowing through to the bottom line.

Net income for the year increased $164 million to $532 million, excluding unusual charges from 1999. The increase is largely a result of a reduction in the Canadian federal income tax rates of up to 7% over the next four years, reaffirmed by the Canadian finance minister in December 2000. The effect of the rate change was a reduction in income tax expense of $131 million in the current year.

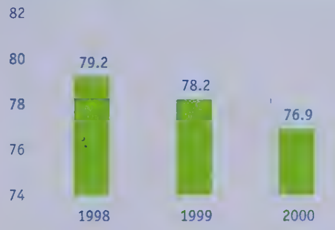
Operating Income

Excluding unusual items (in $ millions)



Operating Ratio

Excluding unusual items (%)



Revenues
(in $ millions)

	2000	1999	1998	1997	1996
Grain	**755**	688	741	826	725
Coal, sulphur & fertilizers	**814**	811	902	967	881
Forest products	**366**	361	325	310	317
Industrial products	**438**	433	430	430	421
Intermodal	**782**	752	679	616	608
Automotive	**305**	279	238	228	210
Subtotal	**3,460**	3,324	3,315	3,377	3,162
KCCL*	**–**	–	–	52	217
Total freight revenues	**3,460**	3,324	3,315	3,429	3,379
Other revenues**	**195**	172	157	154	164
Total revenues	**3,655**	3,496	3,472	3,583	3,543

* Kansas City and Corn Lines ("KCCL") were sold in 1997.
** Excludes unusual items.

CHANGES IN ACCOUNTING

Effective January 1, 2000, the Company adopted retroactively without restating prior years the new Canadian Institute of Chartered Accountants ("CICA") recommendations contained in section 3465 *Income Taxes*. The result was to decrease future income tax liabilities by $55 million and increase opening retained income by $55 million.

Also effective January 1, 2000, the Company adopted prospectively the new CICA recommendations contained in section 3461 *Employee Future Benefits*. The effect on current earnings from adopting these changes was immaterial.

PRICE MANAGEMENT

The competitive environment put pressure on profit margins. However, reductions in prices have been mitigated by improvements in efficiency, productivity, and increased volumes, resulting in a record operating income in 2000.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

The Company does not anticipate any difficulties generating adequate cash and cash equivalents, both in the short term and the long term as required to provide for planned growth.

Cash flow was $976 million in 2000, up $114 million from 1999. The increase was mainly due to the Company's continuing cost reduction efforts.

At December 31, 2000, employee reductions related to all prior restructuring initiatives, including the 1999 initiatives, were substantially completed, although ongoing employment security payments related to these reductions will continue into future years.

Cash payments related to severance under all restructuring initiatives and the environmental remediation program amounted to $163 million in 2000, up from $140 million in 1999. The total accrued restructuring and environmental liability at December 31, 2000, was $677 million, of which $123 million was included in current liabilities.

There are no specific or unusual requirements relating to CPR's working capital. In addition, there are no unusual restrictions on any subsidiary's ability to transfer funds to the Company as required.

Investing Activities

The net capital program in 2000 totalled $571 million, a decrease of $272 million from 1999. This reduction is consistent with the completion in 1999 of CPR's three-year renewal program to revitalize its franchise and reduce the age of its road locomotive fleet. In 2000, expenditures under the capital program included mainly track improvements in the main corridor, facility expansion and improvements in the Eastern Network, car fleet upgrading, information systems enhancements including asset management and on-time shipment applications, and e-business infrastructure.

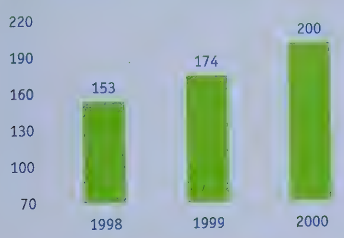
The Company's capital budget for 2001 is projected at $685 million, a significant increase from 2000, reflecting CPR's continued interest in locomotive fleet modernization and e-business applications. The focus of the Company's 2001 investment plan includes maintaining the locomotive replacement program, continuing track replacement, further expanding commercial facilities, upgrading and overhauling the car fleet, and further improving information systems.

The Company has available, as sources for financing, a credit facility of up to $1.8 billion as well as $450 million from a shelf prospectus.

Balance Sheet

The Company's assets totalled $8,808 million at December 31, 2000, reflecting an increase of $439 million. The change was primarily attributable to an increase of $313 million in net properties due to investments in ongoing revitalization of the network, as well as an increase in other assets and deferred charges of $124 million, mainly as a result of an increase in prepaid pension costs.

Locomotive Utilization
(GTMs per available horsepower per day)

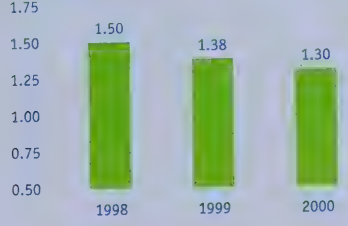


FINANCIAL INSTRUMENTS

The Company's policy with respect to hedging of risk exposure is to reduce volatility associated with U.S. dollar exchange rate changes, variable interest rate loans and fluctuations in the price of crude oil.

Exposure to changes arising from fluctuations in exchange rates between the Canadian and U.S. dollars on future revenue streams and certain U.S. dollar expenditures has been managed by selling or purchasing forward U.S. dollars at fixed rates in future periods. At December 31, 2000, the Company had entered into foreign exchange contracts to sell approximately US$350 million at exchange rates ranging from 1.41 to 1.48 over the years 2001 to 2002.

Fuel Efficiency
(U.S. gallons of fuel per 1,000 GTMs)



The Company is party to a number of interest rate swap agreements which convert a portion of its fixed interest rate liability into a variable rate liability. At December 31, 2000, the Company had outstanding swap agreements for nominal amounts of US$100 million (equivalent to CDN$151 million) and CDN$41 million.

At year-end 2000, the Company hedged 7.5% of its fuel requirements for 2001 at an average price of US$25.45 per barrel.

FUTURE TRENDS, COMMITMENTS AND RISKS

In 2001, CPR will continue its focus on revenue growth and cost reduction as well as improved utilization of its asset base. Growth initiatives currently under way are aimed at further developing intermodal business in the Vancouver-Chicago corridor. CPR anticipates continued gains in the intermodal sector subject to ongoing growth in the North American economy. Closure of non-CPR-served coal mines in northern British Columbia and Alberta is expected to generate increased coal volumes and traffic stability for CPR as demand will be met by CPR-served coal mines. Increased demand and attractive prices for wheat are indicating gains in U.S. grain volumes.

Continuing cost containment programs are seen as vital to the achievement of the Company's financial performance targets. In 2001, CPR expects to complete a program of cost reductions which started in 1999. Two of the main elements of these cost reduction initiatives were the introduction of a new operating plan and the elimination of 1,900 permanent positions. The new operating plan is designed to run longer, heavier trains in key corridors. The operating efficiencies created by this plan are expected to be far-reaching and include improved operating methods and better asset utilization. To date, CPR has achieved significant improvements in its fuel efficiency and locomotive utilization.

Improved asset utilization is expected to result from further coal car and boxcar modernization, as well as the implementation of recent investments in information technology. Overall, the rail industry is leveraging its information technology to facilitate its dealings with suppliers and shippers. CPR's plan is to strategically apply selected information technology to improve its competitive position. In addition, CPR recently established a subsidiary, Tronicus, to provide integrated and customized supply chain solutions for businesses in all industries.

The Company remains committed to maintaining its current high level of plant quality and renewing its franchise. In 2001, the Company has planned capital expenditures of $685 million. At December 31, 2000, CPR had committed to future capital expenditures amounting to $173 million, which will be financed by cash generated by operations. With respect to existing operating lease commitments, minimum lease payments in 2001 will total $117 million. In spite of these commitments, CPR expects to generate positive free cash flow in 2001.

During 2000, the Company took advantage of an opportunity for external financing of certain of its locomotives. Management is committed to ensuring that any resulting increase in CPR's borrowing will be within a manageable range of debt coverage.

The railway industry faces rising input costs, including possible increases in fuel costs. The Company has announced the introduction of a fuel cost adjustment on its commercial accounts in an effort to offset increasing fuel costs. As well, the Company has a hedging plan in place that enables it to hedge up to 50% of its fuel requirements, 12 months into the future. At year-end 2000, the Company hedged 7.5% of its fuel requirements.

The Company's traffic volumes and revenues are largely dependent upon the health and growth of the North American and global economies, exchange rates and other factors affecting the volume and patterns of international trade. The railway is especially sensitive to factors affecting North America's agricultural, mining, forest products, consumer products, import/export, and automotive sectors. Most of these factors are beyond the influence or control of the railway industry.

CPR has a substantial investment in fixed plant and equipment and, therefore, the Company has limited flexibility to adjust output levels and expenditures in response to short-term declines in traffic, potentially resulting in a cyclical adverse impact on future earnings levels. However, the Company actively manages its processes and resources to manage variable costs, increase efficiency and mitigate negative impacts when faced with declines in traffic.

The Company faces competition from other railways and from highway carriers. In 2000, the railway industry's trend of consolidation among major Class 1 railway operations was put on hold pending the U.S. Surface Transportation Board's ("STB") review of merger evaluation criteria, which is scheduled to be completed in June 2001. While the STB review is under way, CPR and the rail industry in general have pursued both operational and commercial alliances and this trend is expected to continue.

The *Canada Transportation Act* ("CTA") is currently under review. The review will have important ramifications for the future of Canada's transportation system and for Canada's overall ability to compete in the global market. CPR understands that the review includes consideration of various concepts of open access under which shippers or other carriers might be given direct access to federally regulated railway facilities.

SAFETY

The Company's Safety and Health Management Committee, established in 1995, provides ongoing focus, leadership, commitment and support for all Company efforts to improve the safety of the operations and the safety and health of all employees. A bottom-up safety action process, called the Safety Framework, involves over 1,500 employees in the planning and implementation of safety-related activities. This, combined with a top-down planning process that encompasses all operational functions, ensures continuous and consistent focus on safety.

At December 31, 2000, U.S. Federal Railroad Administration ("FRA") personal injuries per 200,000 employee hours was 3.9, down approximately 11% from 1999 and down 45% since 1996. FRA reportable train accidents per million train miles declined to 2.0, down 5% from 1999 and down 62% since 1996.

LABOUR RELATIONS

Labour relations remain an important business issue at CPR as approximately 75% of the Company's 17,519 employees are unionized.

At December 31, 2000, four of the Company's seven national collective agreements with Canadian bargaining units expired. Three remaining agreements are in effect through to the end of 2002. Of the four expired agreements, settlements have been reached with the bargaining unit representing clerical employees, and with the bargaining unit representing track maintenance workers. Both renewal agreements extend to the end of 2003. Negotiations with the bargaining unit representing signal maintainers is ongoing. At February 22, 2001, the Company and the bargaining unit representing car and locomotive repair employees were in conciliation.

Gainshare programs are in place for approximately 7,100 Canadian employees represented by five unions. Gainshare is a pay-for-performance system under which employees receive a share of the financial gains or savings they help generate. All major gainshare programs have a portion of their payout tied to a satisfaction index based on customer evaluation of CPR's performance.

In the U.S., the Company is party to collective agreements with 31 bargaining units on its subsidiary railways: 16 with the Soo Line Corporation ("Soo Line"), 14 with the Delaware and Hudson Railway Company, Inc. ("D&H"), and one with the Eastern Network ("EN").

On the Soo Line, all 16 collective agreements were up for renegotiation at the end of 1999, as they were at all Class 1 railroads in the U.S. Of these expired agreements, 15 bargaining units have served notice to begin negotiations. The remaining bargaining unit can serve notice at any time. Soo Line is in negotiations with three bargaining units and discussions are on hold with 11, pending resolution of national negotiations.

At December 31, 2000, D&H had agreements in effect with seven of 14 bargaining units. Six extend to the end of 2001 and one extends to the end of 2002. In February 2001, D&H reached a three-year renewal agreement with the bargaining unit representing machinists, whose agreement had expired at the end of 1999. Of the six remaining bargaining units, D&H is negotiating with three whose agreements expired in 1999 and has been served notice to bargain by two of the three bargaining units whose agreements expired in 2000. Negotiations have not yet begun. The bargaining unit representing track maintainers has not served notice to bargain. Gainshare programs are in place for employees represented by nine of D&H's bargaining units.

On the EN, an agreement with the bargaining unit representing Detroit customs clerks expired at the end of 1999. The parties have agreed to defer negotiations until after a settlement between Soo Line and the bargaining unit representing similar employees has been reached.

ENVIRONMENTAL PROTECTION

The Company's environmental protection policy commits CPR to meeting or exceeding government environmental requirements applicable to its operations and activities. CPR complies with legislation and regulations relating to waste and wastewater management, contaminated sites, spill reporting and emergency response, environmental assessment, storage tanks and other environmental matters.

CPR has had a comprehensive environmental management program in place since the early 1990s that includes re-evaluating the Company's environmental liability needs each year. In 1999, CPR recorded an additional remediation provision of $50 million, before tax. Management expects the entire environmental provision will cover the program until 2010.

The Company incurred cash expenditures of approximately $32 million in 2000 relating to environmental management. Of this amount, $13 million was directly expensed in 2000, $3 million was related to capital program upgrades and $16 million was spent under the remediation program referred to above.

REGULATION AND OTHER ISSUES

Kroeger Report

On October 5, 1999, the federal minister of transport released the Kroeger Report on the Canadian grain transportation system. In response to recommendations contained in the report, the federal government introduced amendments to the CTA, effective August 1, 2000:

- the freight rate cap was replaced with a variable revenue cap on Canadian regulated grain traffic, with the result that CPR experienced reduced revenue from grain, but is continuing to work to minimize the negative impact; and
- provisions for the discontinuance of grain dependent branch lines were adopted that will make disposition of a branch line more difficult.

FORWARD-LOOKING INFORMATION

This Annual Report contains certain forward-looking statements within the meaning of the *Private Securities Litigation Reform Act of 1995* (United States), relating but not limited to CPR's operations, anticipated financial performance, business prospects and strategies. Forward-looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan" or similar words suggesting future outcomes. Much of this information appears in the Management's Discussion and Analysis section.

Readers are cautioned not to place undue reliance on forward-looking information because it is possible that predictions, forecasts, projections and other forms of forward-looking information will not be achieved by CPR. CPR undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.

By its nature, CPR's forward-looking information involves numerous assumptions, inherent risks and uncertainties, including but not limited to the following factors: changes in business strategies; general global economic and business conditions; the availability and price of energy commodities; the effects of competition and pricing pressures; industry overcapacity; shifts in market demands; changes in laws and regulations, including environmental and regulatory laws; potential increases in maintenance and operating costs; uncertainties of litigation; labour disputes; timing of completion of capital or maintenance projects; currency and interest rate fluctuations; various events which could disrupt operations, including severe weather conditions; and technological changes.

Fuel prices remain an uncertainty in 2001. Although there are indications that oil prices will stabilize or decline, this will depend on many factors, including worldwide oil demand, international politics, and the ability of major oil producing countries to reach consensus on production quotas and to comply with these quotas.

In the competitive environment, a moratorium on U.S. rail mergers imposed in 2000 by the STB is scheduled to expire in 2001. Any merger activity among North American railways might affect CPR's competitive position; however detrimental effects may be mitigated by CPR's increasing participation in operational and commercial alliances.

In Canada, the ongoing review of the CTA may result in amendments that could affect the competitive capability and commercial strategies of Canadian railways. The review will include consideration of various forms of open access. While it is not possible to predict the outcome of the review, an interim report issued at year-end expressly recognized that to compete internationally, Canada requires a viable, sustainable rail industry. It is hoped that this philosophy will serve as a framework for any future changes in the law.

management's responsibility for financial reporting.

The information in this Annual Report is the responsibility of management. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include some amounts based on management's best estimates and careful judgment.

Management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are authorized, recorded and reported properly. The internal audit department reviews these accounting controls on an ongoing basis and reports its findings and recommendations to management and the Audit Committee of the Board of Directors.

The Board of Directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee, consisting of five members, all of whom are outside directors. This Committee reviews the consolidated financial statements with management and the independent auditors prior to submission to the Board for approval. It also reviews the recommendations of both the independent and internal auditors for improvements to internal controls, as well as the actions of management to implement such recommendations.

M. T. Waites

Michael T. Waites
Executive Vice-President and
Chief Financial Officer
February 12, 2001

Robert J. Ritchie

Robert J. Ritchie
President and
Chief Executive Officer

auditors' report.

To the Shareholder of Canadian Pacific Railway Company

We have audited the consolidated balance sheets of **Canadian Pacific Railway Company** as at December 31, 2000 and 1999, and the consolidated statements of income, retained income and cash flows for each of the two years in the period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of **Canadian Pacific Railway Company** as at December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2000, in accordance with generally accepted accounting principles in Canada.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
February 12, 2001

statement of consolidated income.

Year ended December 31 (in millions)	2000	1999
Revenues		
Freight	$ 3,460.1	$ 3,323.6
Other	195.0	172.8
	3,655.1	3,496.4
Operating expenses		
Compensation and benefits	1,147.8	1,173.2
Fuel	409.7	279.2
Materials	213.3	199.4
Equipment rents	266.7	269.7
Depreciation and amortization	304.7	292.5
Purchased services and other (Note 3)	467.7	1,020.7
	2,809.9	3,234.7
Operating income	845.2	261.7
Other charges (Note 5)	23.1	26.2
Interest expense (Note 6)	167.0	136.6
Income tax expense (Note 7)	122.8	32.0
Net income	$ 532.3	$ 66.9

See Notes to Consolidated Financial Statements.

consolidated balance sheet.

December 31 (in millions)	2000	1999
Assets		
Current assets		
Cash and short-term investments	$ 120.3	$ 54.7
Accounts receivable (Note 8)	495.3	503.8
Materials and supplies	131.0	176.1
Future income taxes (Note 7)	82.8	58.8
	829.4	793.4
Investments (Note 10)	105.2	139.3
Net properties (Note 11)	7,389.3	7,076.2
Other assets and deferred charges (Note 12)	484.3	360.3
Total assets	$ 8,808.2	$ 8,369.2
Liabilities and shareholder's equity		
Current liabilities		
Bank overdraft	$ –	$ 14.7
Accounts payable and accrued liabilities	1,023.5	1,134.8
Income and other taxes payable	158.1	111.0
Long-term debt maturing within one year (Note 13)	3.1	0.9
	1,184.7	1,261.4
Deferred liabilities (Note 16)	731.8	827.6
Long-term debt (Note 13)	2,276.3	1,646.0
Advances from affiliates (Note 19)	50.0	529.3
Future income taxes (Note 7)	937.7	904.0
Deferred income credits	64.9	62.9
Shareholder's equity (Note 17)		
Ordinary Shares	1,812.5	1,812.5
Contributed surplus	299.4	297.9
Foreign currency translation adjustments	84.3	67.8
Retained income	1,366.6	959.8
	3,562.8	3,138.0
Total liabilities and shareholder's equity	$ 8,808.2	$ 8,369.2

See Notes to Consolidated Financial Statements.

Approved on behalf of the Board:

David P O'Brien　　　John D. McNeil

D.P. O'Brien, Director　　　J.D. McNeil, Director

statement of consolidated cash flows.

Year ended December 31 (in millions)	2000	1999
Operating activities		
Net income	$ **532.3**	$ 66.9
Add (deduct) items not affecting cash flow		
Depreciation and amortization	**304.7**	292.5
Future income taxes	**111.6**	16.0
Restructuring costs (Note 3)	**–**	472.2
Amortization of deferred charges	**28.3**	23.3
Other	**(1.3)**	(9.4)
Cash flow	**975.6**	861.5
Restructuring payments	**(163.1)**	(140.3)
Other operating activities, net	**(134.9)**	(6.4)
Change in non-cash working capital balances related to operations (Note 9)	**(1.0)**	(41.9)
Cash provided by operating activities	**676.6**	672.9
Investing activities		
Additions to properties (Note 11)	**(586.1)**	(1,109.8)
Other investments	**11.3**	26.3
Net proceeds from disposal of transportation properties	**37.9**	7.9
Cash used in investing activities	**(536.9)**	(1,075.6)
Financing activities		
Dividends paid	**(180.5)**	(150.0)
Issuance of long-term debt	**599.8**	235.0
Repayment of long-term debt	**(0.9)**	(20.1)
Equity contribution from affiliate (Note 17)	**1.5**	14.2
Advances (to) from affiliates	**(479.3)**	314.1
Cash (used in) provided by financing activities	**(59.4)**	393.2
Cash position		
Increase (decrease) in net cash	**80.3**	(9.5)
Net cash at beginning of year	**40.0**	49.5
Net cash at end of year	$ **120.3**	$ 40.0
Net cash is defined as:		
Cash and short-term investments	$ **120.3**	$ 54.7
Bank overdraft	**–**	(14.7)
	$ **120.3**	$ 40.0

See Notes to Consolidated Financial Statements.

statement of consolidated retained income.

Year ended December 31 (in millions)	2000	1999
Balance, January 1, as previously reported	$ 959.8	$ 1,042.9
Adjustment for change in accounting policy (Note 2)	55.0	–
Balance, January 1, as restated	1,014.8	1,042.9
Net income for the year	532.3	66.9
Dividends paid		
Ordinary Shares	(180.5)	(150.0)
Balance, December 31	$ 1,366.6	$ 959.8

See Notes to Consolidated Financial Statements.

notes to consolidated financial statements.

December 31, 2000

1 Summary of significant accounting policies

Principles of consolidation

These consolidated financial statements include adjustments to better reflect an accounting basis that is more comparable with that employed by other Class I railways in North America. The unconsolidated books and records of the railway entities within the consolidated group continue to be reported according to generally accepted accounting practices for railways as prescribed in the regulations of the Canadian Transportation Agency in Canada and the Surface Transportation Board in the United States.

Principal subsidiaries

The following list sets out Canadian Pacific Railway Company's principal subsidiaries, including the jurisdiction of incorporation and the percentage of voting securities owned directly or indirectly by Canadian Pacific Railway Company ("the Company") as of the date hereof.

Principal subsidiary	Incorporated under the laws of	Percentage of voting securities held directly or indirectly by the Company
Soo Line Corporation ("Soo Line")	Minnesota	100%
Delaware and Hudson Railway Company, Inc. ("D&H")	Delaware	100%
St. Lawrence & Hudson Railway Company Limited ("StL&H")	Canada	* 100%

* Effective January 1, 2001, StL&H will be combined with the Company and will no longer be a separate legal entity. The StL&H will continue to operate as a division of the Company under the name Eastern Network Canada.

Revenue recognition

Railway freight revenues are recognized based on the percentage of completed service method.

Foreign currency translation

Foreign currency assets and liabilities of the Company's operations, other than through foreign subsidiaries, are translated into Canadian dollars at the year-end exchange rate for monetary items and at the historical exchange rates for non-monetary items. Foreign currency revenues and expenses are translated at the exchange rate in effect on the dates of the related transactions. With the exception of unrealized gains and losses on long-term monetary assets and liabilities, which are being amortized to income over the remaining lives of the related items, foreign currency gains and losses are included immediately in income.

The accounts of the Company's foreign subsidiaries are translated into Canadian dollars using the year-end exchange rate for assets and liabilities and the average exchange rates in effect for the year for revenues and expenses. Exchange gains or losses arising from translation of foreign subsidiaries' accounts are included under Shareholder's equity as foreign currency translation adjustments. Also included as a foreign currency translation adjustment is the exchange credit arising from translation of the Company's Perpetual 4% Consolidated Debenture Stock.

1 Summary of significant accounting policies (continued)

Pensions and other benefits
The Company adopted the new Canadian Institute of Chartered Accountants ("CICA") recommendations for accounting for employee future benefits effective January 1, 2000 (see Note 2).

Pension costs are actuarially determined using the projected benefit method prorated over the credited service periods of employees. This method incorporates management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. The expected return on plan assets is based on the expected long-term rate of return on the fair value of plan assets. The discount rate used to determine the benefit obligation is based on market interest rates on high quality corporate debt instruments with matching cash flows. Unrecognized actuarial gains and losses in excess of 10% of the greater of the projected benefit obligation or fair value of plan assets are amortized over the expected average remaining service period of active employees expected to receive benefits under the plan. The transitional asset and obligation arising from the implementation of the new accounting standard (see above) are being amortized over the expected average remaining service period of active employees expected to receive benefits under the plan.

Benefits other than pensions, including accrued termination benefits, as well as health care, life insurance and workers' compensation benefits, are actuarially determined and accrued on a basis similar to pension costs.

Materials and supplies
Inventories of materials and supplies are valued at the lower of average cost and replacement value.

Properties
Fixed asset additions and major renewals are recorded at cost. Computer system development costs on major new systems are capitalized. When depreciable property is retired or otherwise disposed of in the normal course of business, the book value, less salvage, is charged to accumulated depreciation.

Depreciation is calculated on the straight-line basis at rates based upon the estimated service life, taking into consideration the projected annual usage of depreciable property, except for rail and other track material in the United States, which is based directly on usage.

Equipment under capital lease is included in properties and depreciated over the period of expected use. Estimated service life used for principal categories of properties is as follows:

Assets	Years
Diesel locomotives	28 to 32
Freight cars	23 to 47
Ties	35 to 45
Rails	
in first position	21 to 30
in other than first position	54
Computer system development costs	5 to 10

Deferred income credits
Deferred income credits include revenues from fibre optic right of way contracts and funds received for the rehabilitation of certain railway lines. Fibre optic revenues are being amortized to income on a straight-line basis over the related lease term. Funds received for the rehabilitation of certain railway lines are being amortized to income on the same basis as the related properties are being depreciated.

1 Summary of significant accounting policies (continued)

Financial instruments

Derivative financial instruments may be used by the Company from time to time to manage its exposure to market risks relating to foreign currency exchange rates, interest rates and fuel prices. Unrealized gains and losses on derivative instruments, except those used as hedges, are recognized in income in the current period. Unrealized gains and losses on derivative instruments used as hedges are deferred and recognized in income in the period that the hedged exposure is recognized in income, which is the same period the instrument is settled.

Restructuring charges

Restructuring charges are recorded in the year detailed exit or restructuring plans are approved. Environmental remediation accruals cover 10 years of a site-specific hydrocarbon remediation program. Provisions for labour restructuring and environmental remediation costs are recorded in accrued liabilities and in deferred liabilities. Certain components of the restructuring liability are recorded at their present value with the related discount being amortized over the payment period.

Income taxes

The Company adopted the new CICA recommendations for accounting for income taxes effective January 1, 2000 (see Note 2).

The Company follows the liability method of accounting for income taxes. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities. These differences are then measured using substantially enacted tax rates and laws that will be in effect when these differences are expected to reverse. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs.

2 Changes in accounting policy

Employee future benefits

Effective January 1, 2000, the Company adopted prospectively the new CICA recommendations for accounting for employee future benefits. The effect on current earnings from adopting these changes is immaterial.

Under the new recommendations, the Company's projected benefit obligation is discounted using a market interest rate at the beginning of the year on high quality corporate debt instruments. Previously, the discount rate used was based on management's best estimate of the long-term rate of return on pension fund assets.

In addition, the Company provides post-retirement benefits other than pension which primarily include health care and life insurance benefits which are not covered under the Company's principal pension plans. The new recommendations require that these costs, based on the terms of the plan, be recognized on an accrual basis during the periods the plan participants provide the services. Previously, the cost of providing these benefits was expensed when paid.

2 Changes in accounting policy (continued)

Income taxes

Effective January 1, 2000, the Company adopted retroactively without restating prior years the new CICA recommendations with respect to accounting for income taxes. The result was to decrease future income tax liabilities by $55.0 million and increase opening retained earnings by $55.0 million.

Under the new liability method, future income tax assets and liabilities are determined based on reporting differences between the basis of assets and liabilities used for financial statement and income tax purposes. Such differences are then measured using substantially enacted tax rates and laws that will be in effect when these differences are expected to reverse. Prior to the adoption of the new recommendations, income tax expense was determined using the deferral method of tax allocation.

3 Unusual items

During the second quarter of 1999, the Company recorded unusual items of $500.6 million against its operating income ($301.5 million after tax). These charges were comprised of labour-related restructuring charges of $422.2 million, enhancements to the environmental remediation program of $50.0 million, and a one-time charge of $28.4 million mostly relating to Year 2000 remediation work.

4 Segmented information

Operating segment

The Company operates in only one operating segment: rail transportation. The financial information presented at this level is used by management for decision making.

No customer accounts for more than 10% of the Company's revenue.

Geographic information

(in millions)	Canada	United States	Total
2000			
Revenues	**$ 2,697.1**	**$ 958.0**	**$ 3,655.1**
Net properties	**$ 5,620.4**	**$ 1,768.9**	**$ 7,389.3**
1999			
Revenues	$ 2,538.7	$ 957.7	$ 3,496.4
Net properties	$ 5,383.2	$ 1,693.0	$ 7,076.2

consolidating income.

4 Segmented information (continued)

Consolidating information

(in millions)	Canada	United States	Other countries	Consolidating entries	Total
2000					
Revenues	$ 2,701.9	$ 958.0	$ –	$ (4.8)	$ 3,655.1
Operating expenses	2,149.6	844.0	–	(183.7)	2,809.9
Operating income	552.3	114.0	–	178.9	845.2
Interest and other charges	228.0	18.4	(56.3)	–	190.1
Income taxes	76.4	17.8	4.4	24.2	122.8
Net income	$ 247.9	$ 77.8	$ 51.9	$ 154.7	$ 532.3
Current assets	$ 543.8	$ 276.0	$ 71.6	$ (62.0)	$ 829.4
Net properties	4,773.4	1,768.9	–	847.0	7,389.3
Other long-term assets	550.4	39.2	–	(0.1)	589.5
Total assets	$ 5,867.6	$ 2,084.1	$ 71.6	$ 784.9	$ 8,808.2
Current liabilities	$ 918.9	$ 317.3	$ 12.8	$ (64.3)	$ 1,184.7
Long-term liabilities	3,307.3	587.1	44.0	122.3	4,060.7
Shareholder's equity	1,641.4	1,179.7	14.8	726.9	3,562.8
Total liabilities and shareholder's equity	$ 5,867.6	$ 2,084.1	$ 71.6	$ 784.9	$ 8,808.2

(in millions)	Canada	United States	Other countries	Consolidating entries	Total
1999					
Revenues	$ 2,534.9	$ 957.7	$ –	$ 3.8	$ 3,496.4
Operating expenses	2,450.0	950.0	–	(165.3)	3,234.7
Operating income	84.9	7.7	–	169.1	261.7
Interest and other charges	174.5	18.6	(30.3)	–	162.8
Income taxes	(46.4)	(0.4)	2.5	76.3	32.0
Net income (loss)	$ (43.2)	$ (10.5)	$ 27.8	$ 92.8	$ 66.9
Current assets	$ 617.7	$ 257.8	$ 0.8	$ (82.9)	$ 793.4
Net properties	4,739.9	1,693.0	–	643.3	7,076.2
Other long-term assets	449.3	50.5	–	(0.2)	499.6
Total assets	$ 5,806.9	$ 2,001.3	$ 0.8	$ 560.2	$ 8,369.2
Current liabilities	$ 1,025.8	$ 321.4	$ 3.2	$ (89.0)	$ 1,261.4
Long-term liabilities	3,482.9	377.5	32.3	77.1	3,969.8
Shareholder's equity	1,298.2	1,302.4	(34.7)	572.1	3,138.0
Total liabilities and shareholder's equity	$ 5,806.9	$ 2,001.3	$ 0.8	$ 560.2	$ 8,369.2

The condensed income statement and balance sheet for the Canadian operations have been prepared in accordance with the Uniform Classification of Accounts issued by the Canadian Transportation Agency in Canada. The changes required to consolidate the Canadian operations are identified above as consolidating entries with the exception of amounts adjusting current assets and liabilities which are eliminations of inter-company balances between countries.

5 Other charges

(in millions)	2000	1999
Amortization of discount on restructuring accruals	$ 18.4	$ 18.9
Change in discount on restructuring accruals	3.2	(7.1)
Amortization of discount related to workers' compensation	7.8	–
Amortization of foreign exchange losses on long-term debt	2.1	4.4
Other exchange gains	(17.3)	–
Charges on sale of accounts receivable	7.1	6.5
Other	1.8	3.5
	$ 23.1	$ 26.2

6 Interest expense

(in millions)	2000	1999
Interest on long-term debt and debenture stock	$ 178.2	$ 151.9
Interest income	(11.2)	(15.3)
	$ 167.0	$ 136.6
Cash interest payments	$ 168.3	$ 138.8

Interest paid to affiliates during 2000 was $25.6 million (1999 – $24.6 million).

7 Income taxes

The following is a summary of the major components of the Company's income tax expense:

(in millions)	2000	1999
Canada (domestic)		
Current income tax expense	$ 10.0	$ 15.6
Future income tax expense		
Origination and reversal of temporary differences	$ 222.4	$ 14.3
Effect of reduction in federal tax rates	(131.7)	–
Total future income tax expense	$ 90.7	$ 14.3
Total income taxes (domestic)	$ 100.7	$ 29.9
Other (foreign)		
Current income tax expense	$ 1.2	$ 0.4
Future income tax expense		
Origination and reversal of temporary differences	$ 27.0	$ 1.7
Effect of change in tax rates	0.9	–
Previously unrecognized tax losses	(7.0)	–
Total future income tax expense	$ 20.9	$ 1.7
Total income taxes (foreign)	$ 22.1	$ 2.1
Total		
Current income tax expense	$ 11.2	$ 16.0
Future income tax expense	111.6	16.0
Total income taxes (domestic and foreign)	$ 122.8	$ 32.0

7 Income taxes (continued)

The provision for future income taxes arises from temporary differences in the recognition of revenues and expenses for financial statement and income tax purposes. The temporary differences comprising the future income tax assets and liabilities are as follows:

(in millions)	2000
Future income tax assets	
Restructuring liability	$ 251.0
Amount related to tax losses carried forward	168.1
Liabilities carrying value in excess of tax basis	116.7
Future site restoration costs	26.5
Other	58.1
Total future income tax assets	620.4
Future income tax liabilities	
Capital assets carrying value in excess of tax basis	1,333.3
Prepaid expenses	82.0
Other	60.0
Total future income tax liabilities	1,475.3
Total net future income tax liability	854.9
Net current future income tax asset	82.8
Net long-term future income tax liability	$ 937.7

The Company's consolidated effective income tax rate differs from the expected statutory tax rate. Expected income tax expense at statutory rates is reconciled to income tax expense as follows:

(in millions)	2000	1999
Expected income tax expense at Canadian statutory tax rates	$ 294.8	$ 43.3
Increase (decrease) in taxes resulting from:		
Large corporations tax	10.0	9.4
Gains not subject to tax	(20.5)	(10.1)
Foreign tax rate differentials	(26.7)	(10.0)
Effect of reduction in federal tax rates	(130.8)	–
Previously unrecognized tax losses	(7.0)	–
Other	3.0	(0.6)
Income tax expense	$ 122.8	$ 32.0

The Company has $203.3 million of unused tax losses, for which no future income tax asset has been recognized, expiring in 2005 to 2020.

8 Sale of accounts receivable

The Company has a securitization agreement involving the sale of accounts receivable which at December 31, 2000, amounted to $132.0 million (1999 – $132.0 million). Cash proceeds on the sale of these receivables were $120.0 million (1999 – $120.0 million) with $12.0 million (1999 – $12.0 million) having been held back as a reserve to be released to the Company upon termination of the agreement.

9 Change in non-cash working capital balances related to operations

(in millions)	2000	1999
Source (use) of cash:		
Accounts receivable	$ 8.5	$ (45.1)
Materials and supplies	45.1	18.5
Accounts payable and accrued liabilities	(111.3)	(254.4)
Income and other taxes payable	47.1	8.2
Change in non-cash working capital	(10.6)	(272.8)
Exclude amounts reported outside of working capital on the statement of consolidated cash flows:		
Decrease (increase) in current portion of restructuring provisions	53.5	(35.9)
Decrease in payables resulting from additions to properties	14.9	266.8
Other	(18.7)	–
Other changes in non-cash working capital balances (reclassification from long-term liabilities to current liabilities)	(40.1)	–
Change in non-cash working capital balances related to operations	$ (1.0)	$ (41.9)

10 Investments

(in millions)	2000	1999
Rail investments accounted for on an equity basis	$ 65.8	$ 91.2
Other investments accounted for on a cost basis	39.4	48.1
	$ 105.2	$ 139.3

11 Net properties

(in millions)	Cost	Accumulated depreciation	Net book value
2000			
Track and roadway	**$ 6,719.8**	**$ 2,193.7**	**$ 4,526.1**
Buildings	**328.4**	**166.0**	**162.4**
Rolling stock	**2,833.9**	**1,137.2**	**1,696.7**
Other	**1,456.9**	**452.8**	**1,004.1**
	$ 11,339.0	**$ 3,949.7**	**$ 7,389.3**

(in millions)	Cost	Accumulated depreciation	Net book value
1999			
Track and roadway	$ 6,430.7	$ 2,144.6	$ 4,286.1
Buildings	408.2	155.7	252.5
Rolling stock	2,817.0	1,145.4	1,671.6
Other	1,294.8	428.8	866.0
	$ 10,950.7	$ 3,874.5	$ 7,076.2

At December 31, 2000, net properties included assets held under capital lease of $201.9 million at cost (1999 – $201.9 million), and related accumulated depreciation of $35.2 million (1999 – $28.6 million).

During the year, capital assets were acquired under the Company's capital program at an aggregate cost of $571.2 million (1999 – $843.0 million). Cash payments related to capital purchases were $586.1 million during the year (1999 – $1,109.8 million), which included payments for capital purchases included in accounts payable prior to 1998. Under the old CICA recommendation for statement of changes in financial position, it was appropriate to include non-cash capital purchases in additions to property; thus, included in additions to property in 1998 and 1997 were non-cash capital purchases of $71.7 million and $221.1 million, respectively. Cash payments for these purchases were made during 1999 and 2000. At December 31, 2000, $11.1 million remained in accounts payable related to the above purchases.

12 Other assets and deferred charges

(in millions)	**2000**	1999
Prepaid pension costs	**$ 213.6**	$ 139.4
Unamortized exchange loss	**150.0**	120.0
Other	**120.7**	100.9
	$ 484.3	$ 360.3

13 Long-term debt

(in millions)	2000	1999
6.875% Debentures due 2003	$ 377.5	$ 367.5
9.450% Debentures due 2021	377.5	367.5
8.850% Debentures due 2022	377.5	367.5
7.20% Medium Term Notes due 2005	250.0	–
6.910% Secured Equipment Notes due 2005 – 2024	235.0	235.0
7.49% Equipment Trust Certificates due 2005 – 2021	181.2	–
Secured Equipment Loan due 2001 – 2015	165.0	–
Obligations under capital leases due 2000 – 2014 (6.85% – 7.63%)	253.0	247.1
Other	1.4	1.6
	2,218.1	1,586.2
Perpetual 4% Consolidated Debenture Stock	61.3	60.7
	2,279.4	1,646.9
Less: Long-term debt maturing within one year	3.1	0.9
	$ 2,276.3	$ 1,646.0

At December 31, 2000, long-term debt denominated in U.S. dollars was $1,616.6 million (1999 – $1,398.3 million).

The Company's Debentures are unsecured but carry a negative pledge. The 8.850% Debentures are callable starting in 2002 at a premium which declines over time.

The Medium Term Notes are unsecured, but carry a negative pledge. Interest is payable semi-annually in arrears on June 28 and December 28 in each year commencing December 28, 2000.

The Secured Equipment Notes are full recourse obligations of the Company secured by a first charge on specific units of railway rolling stock. The Company will make semi-annual payments of interest in the amount of $8.1 million on April 1 and October 1 of each year up to and including October 1, 2004. Thereafter, the Company will pay on April 1 and October 1 in each year commencing April 1, 2005, up to and including October 1, 2024, equal blended semi-annual payments of principal and interest of $10.9 million.

The Equipment Trust Certificates are secured by specific locomotive units. The Company will make an interest payment of US$5.1 million on July 15, 2001. Commencing January 15, 2002, semi-annual interest payments of US$4.5 million will be paid on January 15 and July 15 of each year up to and including January 15, 2005. Thereafter, semi-annual payments will vary in amount and will be interest only payments or blended principal and interest payments. Final payment of principal is due January 15, 2021.

The Secured Equipment Loan is secured by specific locomotive units. The interest rate is floating and is calculated based on a six-month average CDOR (calculated based on an average of Bankers' Acceptance rates) plus 53 basis points (2000 – 6.54167%). The Company will make blended payments of interest and principal semi-annually on February 1 and August 1 in each year, commencing February 1, 2001.

The Consolidated Debenture Stock, created by an Act of Parliament of 1889, constitutes a first charge upon and over the whole of the undertaking, railways, works, rolling stock, plant, property and effects of the Company, with certain exceptions. Despite its perpetual nature, the relatively small remaining amount of Consolidated Debenture Stock has been included with long-term debt to simplify the balance sheet presentation.

13 Long-term debt (continued)

Annual maturities and sinking fund requirements, excluding those pertaining to capital leases, for each of the five years following 2000 are: 2001 – $2.4 million; 2002 – $2.4 million; 2003 – $379.9 million; 2004 – $2.4 million; 2005 – $260.7 million.

At December 31, 2000, capital lease obligations included in long-term debt above were as follows:

(in millions)	Year	Capital leases
Minimum lease payments in:		
	2001	$ 18.8
	2002	18.8
	2003	18.8
	2004	18.8
	2005	18.8
	Thereafter	397.9
Total minimum lease payments		491.9
Less: Imputed interest		238.9
Present value of minimum lease payments		253.0
Less: Current portion		0.7
Long-term portion of capital lease obligations		$ 252.3

14 Financial instruments

Forward foreign currency exchange contracts

Exposure to changes arising from fluctuations in exchange rates between Canadian and U.S. dollars on future revenue streams and certain U.S. dollar expenditures has been managed by selling or purchasing forward U.S. dollars at fixed rates in future periods. At December 31, 2000, the Company had entered into foreign exchange contracts to sell approximately US$350.0 million at exchange rates ranging from 1.41 to 1.48 over the years 2001 to 2002. At December 31, 2000, the unrealized loss on forward foreign currency exchange contracts was CDN$17.5 million.

At December 31, 2000, the above included contracts to sell approximately US$300.0 million to a related party over the years 2001 to 2002 at rates ranging from 1.41 to 1.48, with an unrealized loss of CDN$13.3 million.

Commodity contracts

Exposure to fluctuations in the price of crude oil has been reduced by selling or purchasing crude oil futures. At December 31, 2000, the Company had entered into futures contracts to purchase approximately 480,000 barrels at prices ranging from US$23.90 to US$27.25 per barrel. At December 31, 2000, the unrealized loss on crude oil futures was CDN$1.3 million.

Interest rate swaps

The Company is party to a number of interest rate swap agreements which convert a portion of its fixed interest rate liability into a variable rate liability. At December 31, 2000, the Company had outstanding swap agreements for nominal amounts of US$100.0 million (equivalent to CDN$151.0 million) and CDN$40.8 million.

14 Financial instruments (continued)

The following table discloses the terms of the swap agreements in place at December 31, 2000:

Expiration	June 2002	November 2003
Notional amount of principal (in millions)	US$100.0	CDN$40.8
Fixed receiving rate	7.7%	8.0%
Variable paying rate	6.7%(1)	8.1%(2)

(1) Based on US LIBOR.
(2) Based on Bankers' Acceptances.

Credit risk management

The Company is exposed to credit losses in the event of non-performance by counterparties to financial instruments, however, the Company does not anticipate such non-performance as dealings have been with counterparties of high credit quality. In addition, the Company believes there are no significant concentrations of credit risk.

Interest rate exposure and fair values

The Company's exposure to interest rate risk along with the total carrying amounts and fair values of its financial instruments is summarized in the following table:

		Fixed interest rate maturing in				
(in millions)	At floating interest rates	Less than one year	One to five years	More than five years	Total carrying value	Fair value
Financial assets						
Cash and short-term investments	$ 120.3	$ –	$ –	$ –	$ 120.3	$ 120.3
Financial liabilities						
Advances from affiliates	50.0	–	–	–	50.0	50.0
Debentures	–	–	377.5	755.0	1,132.5	1,164.5
Medium Term Notes	–	–	250.0	–	250.0	254.1
Secured Equipment Notes	–	–	5.7	229.3	235.0	238.3
Equipment Trust Certificates	–	–	2.6	178.6	181.2	181.2
Secured Equipment Loan	165.0	–	–	–	165.0	165.0
4% Consolidated Debenture Stock	–	–	–	61.3	61.3	35.9
Obligations under capital leases	–	0.7	2.7	249.6	253.0	255.1
Other	–	0.2	0.8	0.4	1.4	1.4
Forward foreign currency contracts	–	–	–	–	–	(17.5)
Crude oil futures	–	–	–	–	–	(1.3)
Interest rate swaps	191.8	–	(191.8)	–	–	3.8

The Company has determined the estimated fair value of its financial instruments based on appropriate valuation methodologies. However, considerable judgment is necessary to develop these estimates. Accordingly, the estimates presented herein are not necessarily indicative of what the Company could realize in a current market exchange. The use of different assumptions or methodologies may have a material effect on the estimated fair value amounts.

14 Financial instruments (continued)

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

- Short-term financial assets and liabilities are valued at their carrying amounts as presented in the balance sheet, which are reasonable estimates of fair value due to the relatively short period to maturity of these instruments.
- Advances from affiliates are valued at their carrying amounts as presented in the balance sheet, which are reasonable estimates of fair value due to the floating rate interest charges.
- The fair value of publicly traded long-term debt is determined based upon market prices at December 31, 2000. The fair value of other long-term debt is estimated based on rates currently available to the Company for long-term borrowings with similar terms and conditions to those borrowings in place at the balance sheet date.
- The fair value of derivative instruments is estimated as the unrealized gain or loss calculated based on market prices or rates at December 31, 2000, which generally reflect the estimated amounts that the Company would receive or pay to terminate the contracts at the balance sheet date.

15 Restructuring charges and environmental remediation

At December 31, 2000, the provision for restructuring and environmental remediation was $676.9 million (1999 – $841.8 million). This provision primarily includes labour liabilities for restructuring plans that are, in many cases, substantially implemented. The majority of the provision consists of expected residual payments to protected employees and the cost of a multi-year soil remediation program.

During 2000, the Company recorded an additional restructuring accrual of $18.2 million related to labour restructuring costs stemming from additional branch line rationalization. This charge was offset by a net reduction of $24.1 million in the projected cost of previously accrued initiatives, resulting mainly from efforts to more efficiently achieve the desired restructuring objectives, including the reassignment of some of the affected employees.

16 Deferred liabilities

(in millions)	**2000**	1999
Provision for restructuring and environmental remediation	**$ 676.9**	$ 841.8
Deferred workers' compensation	**139.0**	138.1
Accrued employee benefits	**77.4**	65.5
Other	**41.1**	38.9
	934.4	1,084.3
Less: Amount payable within one year	**202.6**	256.7
	$ 731.8	$ 827.6

17 Shareholder's equity

Authorized and issued share capital

The Company's authorized and issued share capital is as follows:

(in millions)	Authorized	2000 Issued	1999 Issued
Ordinary Shares	Unlimited	**347.2**	347.2
Preference Shares	See *	**–**	–
First Preferred Shares	Unlimited	**–**	–
Second Preferred Shares	Unlimited	**–**	–
Third Preferred Shares	Unlimited	**–**	–
Fourth Preferred Shares	Unlimited	**–**	–

* Not exceeding one-half the aggregate amount of Ordinary Shares outstanding.

Ordinary Shares

At December 31, 2000, the issued Ordinary Shares of 347.2 million had a carrying value of $1,812.5 million. The number and value of shares issued has not changed since January 1, 1999.

Contributed surplus

During 2000, the Company received net capital contributions totalling $1.5 million (1999 – $14.2 million).

Foreign currency translation adjustments

Included in equity are the following cumulative foreign currency translation adjustments:

(in millions)	2000	1999
Balance, January 1	**$ 67.8**	$ 95.3
Effect of exchange rate changes on		
Perpetual 4% Consolidated Debenture Stock	**(0.6)**	3.9
Change in foreign currency translation rates on foreign subsidiaries	**17.1**	(31.4)
Balance, December 31	**$ 84.3**	$ 67.8

18 Pensions and other benefits

The Company has defined benefit plans which provide for pensions based principally on years of service and compensation rates near retirement. Annual contributions to the defined benefit plans, which are actuarially determined, are made on the basis of not less than the minimum amounts required by federal or provincial pension supervisory authorities. During the year, the Company offered non-unionized employees the option to change to a defined contribution plan which will take effect January 1, 2001.

At December 31, 2000, the net benefit (credit) expense includes the following components:

		2000	
(in millions)	**Pensions**	**Other benefits**	**Total**
Current service cost (benefits earned by employees in the year)	$ 38.8	$ 16.3	$ 55.1
Plan adjustment	–	(31.9)	(31.9)
Settlement gain	–	(22.0)	(22.0)
Interest cost on projected benefit obligation	364.1	57.2	421.3
Expected return on pension fund assets	(428.6)	(1.1)	(429.7)
Amortization of:			
Transitional (asset) obligation	(16.1)	(13.2)	(29.3)
Prior year service cost	–	–	–
Net actuarial gain	–	(0.5)	(0.5)
Net benefit (credit) expense	$ (41.8)	$ 4.8	$ (37.0)

18 Pensions and other benefits (continued)

Information about the Company's defined benefit pension plans and other benefits, in aggregate, is as follows:

(in millions)	Pensions	2000 Other benefits	Total
Change in benefit obligation:			
Benefit obligation at December 31, 1999	$ 4,850.1	$ 789.1	$ 5,639.2
Effect of change in accounting policy	290.2	35.7	325.9
Benefit obligation at January 1, 2000	5,140.3	824.8	5,965.1
Current service cost	38.8	16.3	55.1
Plan adjustment	–	(31.9)	(31.9)
Settlement gain	–	(22.0)	(22.0)
Interest cost	364.1	57.2	421.3
Employee contributions	50.5	–	50.5
Benefits paid	(347.2)	(144.6)	(491.8)
Foreign currency changes	3.7	7.9	11.6
Plan amendments	42.4	–	42.4
Actuarial loss	311.4	21.9	333.3
Benefit obligation at December 31, 2000	$ 5,604.0	$ 729.6	$ 6,333.6
Change in fund assets:			
Market-related value of fund assets at December 31, 1999	$ 5,129.7	$ –	$ 5,129.7
Effect of change in accounting policy	332.7	13.0	345.7
Fair value of fund assets at January 1, 2000	5,462.4	13.0	5,475.4
Actual return on fund assets	501.0	(1.3)	499.7
Employer contributions	41.3	10.3	51.6
Employee contributions	50.5	–	50.5
Benefits paid	(347.2)	(10.3)	(357.5)
Foreign currency changes	3.3	–	3.3
Fair value of fund assets at December 31, 2000	$ 5,711.3	$ 11.7	$ 5,723.0
Funded status – plan surplus (deficit):	$ 107.3	$ (717.9)	$ (610.6)
Unamortized prior services cost*	42.7	–	42.7
Unamortized net transitional (asset) obligation*	(192.0)	35.9	(156.1)
Unamortized net actuarial loss*	245.3	9.9	255.2
Accrued benefit asset (liability) in the consolidated balance sheet	$ 203.3	$ (672.1)	$ (468.8)

* Amortized over the expected average remaining service period (generally 13 years).

18 Pensions and other benefits (continued)

Included in the benefit obligation and fair value of fund assets at year-end are the following amounts in respect of plans that are not fully funded:

(in millions)	Pensions	2000 Other benefits
Benefit obligation	$ (206.0)	$ (729.6)
Fair value of fund asset	122.8	11.7
Funded status – plan deficit	$ (83.2)	$ (717.9)

Types of assets included in fair value of fund assets at year-end are as follows:

(in millions)	Pensions	2000 Other benefits	Total
Short-term investments	$ 112.4	$ –	$ 112.4
Bonds	2,855.2	–	2,855.2
Listed stocks	2,475.4	–	2,475.4
Income producing real estate	234.9	–	234.9
Other	33.4	11.7	45.1
Total assets at fair value	$ 5,711.3	$ 11.7	$ 5,723.0

The net accrued benefit liability is included in the following components of the consolidated balance sheet:

(in millions)	2000
Other assets and deferred charges	$ 213.6
Deferred liabilities	(541.5)
Accounts payable and accrued liabilities	(140.9)
Net accrued benefit liability	$ (468.8)

Actuarial assumptions used at December 31 are approximately:

	2000
Discount rate for plan obligation	6.75%
Projected future salary increases	3.00%
Expected rate of return on fund assets for the year ended December 31	8.00%
Health care cost trend rate*	7.90%

* The health care cost trend rate will decrease by 0.6% per year to approximately 4.5% per year.

19 Related party transactions

Rail services provided to affiliated companies yielded revenues in 2000 of $417.7 million (1999 – $406.0 million). Included in accounts receivable is $20.9 million (1999 – $16.8 million) due from affiliates. Long-term advances from affiliates are repayable at the option of the Company and carry an interest rate of Bankers' Acceptances plus 0.25%.

20 Commitments and contingencies

At December 31, 2000, the Company had committed to future capital expenditures amounting to $173.0 million.

At December 31, 2000, the Company had a committed unused line of credit of $300 million available for short-term and long-term financing, repayable five years after signing and prepayable at any time if drawn. The interest rate on this facility varies based on bank prime or Bankers' Acceptances.

Minimum payments under operating leases were estimated at $521.5 million in aggregate, with annual payments (in millions) in each of the five years following 2000 of: 2001 – $116.9; 2002 – $98.6; 2003 – $69.3; 2004 – $55.7; 2005 – $48.4.

D&H carries a US$35.0 million General Mortgage Indenture with the United States Federal Railroad Administration (FRA). D&H has agreed to not dispose of more than one-third of its mainline route miles for a 10-year term ending in 2001. Non-performance under the terms of this agreement would result in a fine of US$35.0 million payable to the FRA.

The Company awards Share Appreciation Rights ("SARs") to certain employees. SARs entitle the holder to receive payment of an amount equal to the excess of the market value of a Canadian Pacific Limited common share at the exercise date over the grant price. At December 31, 2000, the total liability was immaterial.

21 Reclassification

Certain prior year's figures have been reclassified to conform with the presentation adopted for 2000.

22 Subsequent event

On February 12, 2001, the Board of Directors of Canadian Pacific Limited ("CPL") approved a major reorganization that is intended to create five separate publicly traded companies, including Canadian Pacific Railway Company ("CPR"). Under the plan, CPL intends to distribute to its common shareholders its investment in CPR, in order to create a separate public company. The distribution will be implemented under a Plan of Arrangement, contingent upon approval of CPL's shareholders, court approval, a favourable Canadian tax ruling relating to taxation of shareholders on the transaction, and other requisite consents.

23 Supplementary data
Canadian and United States accounting principles

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada, as promulgated by the CICA. Despite recent efforts by the CICA to minimize the differences between Canadian and United States GAAP, some differences still exist. For the information of the Company's United States investors, the major differences are described below. Although the differences between Canadian and United States GAAP are explained below, this supplementary data does not present full United States GAAP financial statements or disclosures.

Change in accounting policy – Income taxes

Effective January 1, 2000, the Company adopted retroactively without restatement CICA Handbook section 3465 "Future Income Taxes" for Canadian GAAP purposes (see Note 2). The new policy, which requires the use of the liability method, is effectively identical to Financial Accounting Standards Board ("FASB") Statement No. 109, eliminating the prior year differences. Canadian GAAP requires the use of substantially enacted tax rates for the calculation of future income taxes, whereas under FASB Statement No. 109, only enacted tax rates can be used.

Change in accounting policy – Pensions and post-retirement benefits

Effective January 1, 2000, the Company adopted prospectively the new CICA section 3461 "Employee Future Benefits" (see Note 2). The new policy, which requires that the Company's projected benefit obligation be discounted using a rate based on market interest rates for high quality corporate debt instruments, brings Canadian GAAP treatment essentially in line with FASB Statement No. 87 "Employers' Accounting for Pensions." The previous difference in discount rates impacted the annual pension expense and post-retirement benefit costs prior to 2000.

23 Supplementary data (continued)

Starting in 2000, with the adoption of the new CICA recommendations, the costs related to post-retirement health care and life insurance benefits are consistent with FASB Statement No. 106 "Employers' Accounting for Post-retirement Benefits Other Than Pensions." These costs were previously expensed when paid under Canadian GAAP.

In addition, the new Canadian GAAP policy requires amortization of actuarial gains and losses only if they exceed 10% of the greater of the benefit obligation or the fair value of the plan assets ("the corridor"). This harmonizes the Canadian GAAP treatment with FASB Statement No. 87 and FASB Statement No. 106. Previously, all actuarial gains or losses were amortized under Canadian GAAP.

Upon transition to the new CICA accounting policy, all unamortized gains and losses, including prior service costs, were accumulated into a net transitional asset which is being amortized to income. This creates a difference compared to United States GAAP, under which prior service costs continue to be amortized over the expected average remaining service period while all other net gains accumulated prior to January 1, 2000, fell within the corridor.

Post-employment benefits
Post-employment benefits are covered by the new CICA recommendations for accounting for employee future benefits (see Note 1). Consistent with accounting for post-retirement benefits, the new policy requires amortization of actuarial gains and losses only if they fall outside of the corridor. Under FASB Statement No. 112 "Employers' Accounting for Post-employment Benefits," such gains and losses are included immediately in income.

Termination benefits
The rules required to accrue termination benefits under United States GAAP are more restrictive than those of Canada. In particular, these rules require that the plans be implemented within one year, which is not the case under Canadian GAAP.

Internal use software
Under the American Institute of Certified Public Accountants Statement of Position No. 98-1 "Accounting for the costs of computer software developed or obtained for internal use," certain costs, including preliminary project phase costs, are required to be expensed as incurred, whereas under Canadian GAAP, they are capitalized.

Accounting for derivative instruments and hedging
Under FASB Statement No. 52, for U.S. reporting purposes, forward foreign exchange contracts associated with anticipated future transactions that do not constitute firm commitments are recognized in the financial statements at fair value, with any resulting gains or losses immediately reflected in income. Under Canadian GAAP, certain of these forward foreign exchange contracts qualify as hedges for accounting purposes. Consequently, the fair value of these unsettled contracts is not reflected in the financial statements and any realized gains or losses are only recognized at the time of completion of the hedged transactions.

Foreign exchange
Unrealized exchange gains and losses related to long-term foreign currency assets and liabilities are deferred and amortized over the life of the asset or liability. Under FASB Statement No. 52 "Foreign Currency Translation," such gains and losses are included immediately in income.

Capitalization of interest
The Company expenses interest related to capital projects undertaken during the year. FASB Statement No. 34 "Capitalization of Interest Costs" requires these interest costs to be capitalized.

Comprehensive income
FASB Statement No. 130 "Reporting Comprehensive Income" requires the disclosure of the change in equity from transactions and other events from non-owner sources during the period. Canadian GAAP does not require similar disclosure. In 2000, other comprehensive income arose from foreign currency translation and minimum pension liability adjustments.

Future accounting changes

Accounting for derivative instruments and hedging
Effective January 1, 2001, FASB Statement No. 133 "Accounting for Derivative Instruments and Hedging Activities," and FASB Statement No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities," address the accounting for derivative instruments and hedging activities and require specific documentation and effectiveness testing. FASB Statements No. 133 and 138 permit hedging of cash flows. If these sections were implemented in 2000, net income before taxes would increase by approximately $14 million.

Accounting for transfers and servicing of financial assets and extinguishments of liabilities
During 2000, the FASB issued Statement No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," effective for transactions occurring after March 31, 2001. For United States GAAP reporting purposes, the Company had not adopted the new standard at December 31, 2000. The impact of FASB Statement No. 140 was not determinable at December 31, 2000.

23 Supplementary data (continued)

Comparative income statement

Net income is reconciled from Canadian to United States GAAP in the following manner:

(in millions)	2000	1999
Net income – Canadian GAAP	**$ 532.3**	$ 66.9
Increased (decreased) by:		
Pension costs	**(37.0)**	(14.2)
Post-retirement benefits	**8.5**	(10.9)
Post-employment benefits	**(17.9)**	–
Termination benefits	**5.4**	77.0
Internal use software	**(20.5)**	–
Derivative instruments	**(14.3)**	44.2
Foreign exchange	**(36.7)**	44.0
Capitalized interest	**2.9**	1.1
Future (deferred) income tax recovery (expense) on the above items	**50.8**	(60.5)
Future (deferred) income taxes (effect of change in accounting policy)	**(65.3)**	–
Substantially enacted tax rate adjustment	**(131.7)**	–
Net income – United States GAAP	**$ 276.5**	$ 147.6
Other comprehensive income:		
Foreign currency translation adjustments	**16.5**	(27.5)
Minimum pension liability adjustment	**(7.1)**	9.1
Future (deferred) income tax recovery (expense)	**(5.7)**	9.2
Comprehensive income	**$ 280.2**	$ 138.4

A summary of the differences in operating income resulting from Canadian and United States GAAP is as follows:

(in millions)	2000	1999
Operating income		
Canadian GAAP	**$ 845.2**	$ 261.7
United States GAAP	**$ 783.7**	$ 357.8

23 Supplementary data (continued)

Balance sheet

Had the consolidated balance sheet been prepared under United States GAAP, the differences would have been as follows (higher/(lower) under United States GAAP):

(in millions)	2000	1999
Assets		
Properties		
Capitalized interest	$ 141.9	$ 139.0
Internal use software	(20.5)	–
Future (deferred) income tax asset	1.5	–
Other assets and deferred charges		
Foreign exchange on long-term debt	(156.7)	(120.0)
Pension	(86.6)	(49.6)
Minimum pension liability adjustment	(7.1)	–
Total assets	$ (127.5)	$ (30.6)
Liabilities and shareholder's equity		
Deferred liabilities		
Termination benefits	$ (82.4)	$ (77.0)
Post-retirement benefit liability	85.9	94.4
Post-employment benefit liability	17.9	–
Derivative instruments	17.5	3.2
Future (deferred) income tax liability	136.3	(72.2)
Total liabilities	175.2	(51.6)
Equity	(302.7)	21.0
Total liabilities and shareholder's equity	$ (127.5)	$ (30.6)

Statement of cash flows

There is no significant difference in the statement of consolidated cash flows under United States GAAP.

statement of corporate governance practices.

Canadian Pacific Railway Company and its Board of Directors recognize the importance of corporate governance to the effective management of the Company and to its security holders. The Company's approach to significant issues of corporate governance is designed with a view to ensuring that the business and affairs of the Company are effectively managed so as to enhance shareholder value.

The Board consists of 12 directors, 11 of whom are unrelated to the Company. The only related director is the Chairman of the Board. The number of directors constituting the Board has been reduced significantly over the years from 28 members to its current 12. The Board believes that this number is appropriate and allows the Board to deliberate effectively.

D.P. O'Brien is the Chairman of the Board and also Chairman, President and Chief Executive Officer of Canadian Pacific Limited, the parent of the Company. The fact that he occupies these offices does not, in the opinion of the Board, impair the Board's ability to act independently of management. The opinion is based on the proportion of unrelated to related directors and the fact that an unrelated director, the Chairman of the Corporate Governance and Nominating Committee, has been designated lead director.

The Board assumes responsibility for the stewardship of the Company, and in discharging that responsibility it annually reviews and approves a long-term strategic plan, an annual financial budget, as well as the consolidated financial statements. It also considers and, if appropriate, approves major acquisitions and dispositions.

At this time, the Board has established six committees to assist it in carrying out its responsibilities.

The Executive Committee is composed of a majority of unrelated directors. Its mandate is to exercise powers of the Board, between regularly scheduled meetings of the Board, with certain exceptions prescribed by law, and to review with the Chief Executive Officer significant policy issues, business plans, budgets, acquisitions and divestitures.

The Audit Committee consists entirely of unrelated directors. The Committee reviews with management and the internal and external auditors the Company's financial reporting procedures in connection with the annual audit and the preparation of the financial statements.

It is also responsible for, among other matters, reviewing management's actions relating to the maintenance of internal controls to provide assurance that assets are safeguarded and transactions are authorized, recorded and reported properly. It also

discusses with management the Company's policies and procedures for managing the principal risks of the business to ensure systems and procedures are in place to manage those risks.

The Management, Resources and Compensation Committee is composed entirely of unrelated directors. It is responsible for making recommendations to the Board on management succession planning within the Company and its major subsidiaries. It is also responsible for recommending to the Board the compensation to be paid to senior management. It assesses the performance of the Chief Executive Officer and determines his compensation based on the attainment of objectives set by the Board that are consistent with the Company's strategic plan and that are reflected in the performance criteria of the Company's short- and long-term incentive plans.

The Corporate Governance and Nominating Committee is composed entirely of unrelated directors and is charged with responsibility for all matters relating to corporate governance. These responsibilities include recommending candidates for nomination, appointment, election and re-election to the Board and its committees, assessing Board performance, and determining the most appropriate orientation and education program for new Board members. Directors may, in circumstances considered appropriate by this Committee, engage the services of outside advisors at the Company's expense.

The Environmental and Safety Committee is composed entirely of unrelated directors. It is responsible for making recommendations to the Board on environmental and safety issues and for making reports to the Board on the effectiveness of the Company's response to environmental and safety issues, on the management of risks associated with these issues, and on the implementation of the environmental and safety policy statement adopted by the Board.

The Pension Trust Fund Committee is composed of a majority of unrelated directors. It is responsible for overseeing the operation and administration of the Company's pension plans and the investment policies and management of the pension trust funds.

The Board of Directors reviews the Company's Annual Report, Management's Discussion and Analysis, Annual Information Form, quarterly financial statements, and press releases on major developments, in each case before they are distributed.

five-year summary.

(in millions)	2000	1999	1998	1997	1996
Income items					
Revenues					
Freight					
Grain	**$ 755.2**	$ 687.5	$ 740.6	$ 826.4	$ 725.5
Coal, sulphur and fertilizers	**813.6**	811.2	901.9	966.6	880.7
Forest products	**365.9**	361.2	324.7	309.6	316.8
Industrial products	**438.1**	433.0	430.4	430.0	421.1
Intermodal	**781.9**	751.8	679.3	615.9	608.2
Automotive	**305.4**	278.9	238.3	228.5	209.7
KCCL *	**–**	–	–	51.7	217.3
	3,460.1	3,323.6	3,315.2	3,428.7	3,379.3
Other **	**195.0**	172.8	156.9	153.8	163.4
Total revenues	**3,655.1**	3,496.4	3,472.1	3,582.5	3,542.7
Operating expenses					
Compensation and benefits	**1,147.8**	1,173.2	1,150.8	1,212.5	1,298.5
Fuel	**409.7**	279.2	281.6	343.2	324.4
Materials	**213.3**	199.4	234.6	230.6	255.4
Equipment rents	**266.7**	269.7	258.3	286.7	296.1
Depreciation and amortization	**304.7**	292.5	279.0	249.1	226.2
Purchased services and other	**467.7**	520.1	547.1	592.6	554.2
Total operating expenses **	**2,809.9**	2,734.1	2,751.4	2,914.7	2,954.8
Operating income before unusual items	**845.2**	762.3	720.7	667.8	587.9
Unusual items	**–**	(500.6)	15.3	134.3	16.7
Operating income (loss)	**$ 845.2**	$ 261.7	$ 736.0	$ 802.1	$ 604.6
Operating ratio (excluding unusual items)	**76.9%**	78.2%	79.2%	81.4%	83.4%
Revenue ton-miles					
Grain	**25,329**	21,915	22,599	26,044	23,722
Coal, sulphur and fertilizers	**36,864**	33,655	34,287	35,592	32,255
Forest products	**11,502**	10,775	9,103	8,958	9,327
Industrial products	**13,349**	12,499	11,737	11,863	11,745
Intermodal	**20,778**	19,126	16,288	14,966	14,547
Automotive	**2,587**	2,464	2,080	1,863	1,617
KCCL *	**–**	–	–	1,202	5,527
Total revenue ton-miles	**110,409**	100,434	96,094	100,488	98,740

* Kansas City and Corn Lines ("KCCL") were sold in 1997.

** Excluding unusual items as follows: For 1999, $472.2 million in restructuring charges and a one-time charge of $28.4 million mostly relating to Year 2000 remediation work; for 1998, $44.4-million gain on the sale of Coastal Marine Operations offset by $29.1 million in charges related to Year 2000 remediation work; for 1997, gains of $54.2 million from the sale of KCCL, and $80.1 million from rationalization on the StL&H and the monetization of a property lease in Montreal; for 1996, a gain of $16.7 million from the sale of an equity investment in an industry insurance association.

directors.

Stephen E. Bachand (1)(5)
Former President and Chief Executive Officer,
Canadian Tire Corporation Limited
Ponte Vedra Beach, Florida

Dian Cohen, C.M., LL.D. (1)(3)(5)
President,
Dian Cohen Productions Ltd.
Ayers Cliff, Quebec

Angus A. MacNaughton (2)(4)(6)
President,
Genstar Investment Corporation
San Francisco, California

John D. McNeil (1)(2)(4)(6)
Chairman, Executive Committee, and Director,
Sun Life Assurance Company of Canada, and
Sun Life Financial Services Company of Canada Inc.
Toronto, Ontario

James E. Newall, O.C. (2)(4)(6)
Chairman,
NOVA Chemicals Corporation
Calgary, Alberta

David P. O'Brien (4)(6)
Chairman, President and Chief Executive Officer,
Canadian Pacific Limited; Chairman of the Board,
Canadian Pacific Railway Company
Calgary, Alberta

Michael E.J. Phelps (1)(5)
Chairman and Chief Executive Officer,
Westcoast Energy Inc.
Vancouver, British Columbia

Roger Phillips, O.C. (1)(3)
President and Chief Executive Officer,
IPSCO Inc.
Regina, Saskatchewan

Ronald D. Southern, C.M., C.B.E., LL.D. (5)
Co-Chairman and Chief Executive Officer,
ATCO Ltd. and Canadian Utilities Limited
Calgary, Alberta

Allan R. Taylor, O.C. (2)(4)(5)(6)
Retired Chairman and Chief Executive Officer,
Royal Bank of Canada
Toronto, Ontario

Carole Taylor (3)
Former Chair,
Canada Ports Corporation and
Vancouver Port Corporation
Vancouver, British Columbia

The Rt. Hon., The Viscount Weir (3)
Chairman,
Balfour Beatty plc
London, England

senior officers of the company.

Robert J. Ritchie
President and Chief Executive Officer
Calgary, Alberta

Edwin V. Dodge
Executive Vice-President, Operations
Calgary, Alberta

J. Hugh MacDiarmid
Executive Vice-President, Commercial
Calgary, Alberta

Michael T. Waites
Executive Vice-President
and Chief Financial Officer
Calgary, Alberta

Allen H. Borak
Vice-President, Information Services
Calgary, Alberta

Paul Clark
Vice-President, Communications and Public Affairs
Calgary, Alberta

R. Andrew Shields
Vice-President, Human Resources
and Industrial Relations
Calgary, Alberta

Marcella M. Szel, Q.C.
Vice-President, Strategy and Law, Corporate Secretary
Calgary, Alberta

(1) Member of the Audit Committee
(2) Member of the Corporate Governance and Nominating Committee
(3) Member of the Environmental and Safety Committee
(4) Member of the Executive Committee
(5) Member of the Management, Resources and Compensation Committee
(6) Member of the Pension Trust Fund Committee

Si vous désirez vous procurer la version française du présent rapport, veuillez vous adresser au : Vice-président exécutif et chef des services financiers.

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Almost 3,200 customers are using CPR's Your Track web application — a customized portal that gives users a handy window on their business with the railway.